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The role of soft budgets and regulations in the performance of English Premier League Football Clubs 2004 to 2015

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Abstract

Since the English Premier League (EPL) commenced in 1992 top flight clubs have seen rapid and sustained growth in revenue driven primarily by broadcasting contracts negotiated collectively by the EPL. The most successful clubs also saw a rise in commercial revenue and generated additional income from regular participation in European club competitions. Growth in revenue and the global audience for EPL matches attracted foreign investors and by 2015, 55% of clubs were under foreign ownership.

Analysis showed that several foreign owners focused on sporting success and provided their clubs with a soft budget constraint that allowed significant expenditure on players' costs. This meant where expenditure exceeded revenue owners made available additional funds to cover deficits. Despite growth in revenue, excessive spending meant in aggregate terms the EPL reported losses in every year from 2004-13, and several clubs became reliant on additional funds provided by owners and related parties. A similar situation was evident in football leagues across Europe and led to stricter financial regulation by UEFA and the EPL.

This study makes use of mixed-methods research to examine how the provision of a soft budget constraint impacted on the performance of clubs in the EPL, and whether this supported the introduction of stronger financial regulation. Initial quantitative research examined published financial statements for every club that played in the EPL during the 2003/4-2014/15 seasons, and enabled analysis of financial performance before and following increased regulation. Qualitative research in the form of structured interviews with nine elite informants provided valuable information about attitudes to both poor financial performance and increased regulation. Difficulty accessing elite informants has limited the use of structured interviews in research into the football sector.

This thesis finds that during the period under review, the poor financial performance of clubs in the EPL was driven by wealthy owners who provided their clubs with a soft budget constraint to assist attainment of playing success. The threat of relegation forced other clubs to spend greater amounts just to remain competitive and meant growth in revenue was usually accompanied by a corresponding rise in players' wages. It was only following significant growth in broadcasting revenue accompanied by stricter regulation after 2013 that financial performance improved.

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List of abbreviations

ACE	Arts Council England
ADG	Abu Dhabi United Group Investment and Development
CEO	Chief Executive Officer
CFO	Cash Flow from Operations
CFCB	The UEFA Club Financial Control Body
EFL	English Football League
EPL	English Premier League
EPS	Earnings Per Share
FA	Football Association
FAME	Financial Analysis Made Easy
FIFA	Federation of International Football Associations
FASB	Financial Accounting Standards Board
FFP	Financial Fair Play
FFPR	Financial Fair Play Rules
FFI	Football Fortune Income
FL	Football League
FRS	Financial Reporting Standard
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
LBIT	Loss Before Interest and Taxation
LBT	Loss Before Tax
LFO	Loss From Operations
LFP	Liga National de Futbol Profesional
NFL	National Football League
NYSE	New York Stock Exchange
PBIT	Profit Before Interest and Taxation
PBT	Profit Before Tax
PFO	Profit From Operations
PL	Premier League
PRA	Prudential Regulation Authority
PSG	Paris Saint-Germain
QPR	Queens Park Rangers
RBS	Red Bull Salzburg
ROCE	Return on Capital Employed
ROE	Return on Equity
SCF	Statement of Cash Flows
SCMP	Salary Cost Management Protocol
SFP	Statement of Financial Position
SSAP	Statement of Standard Accounting Practice
STCC	Short Term Cost Control
UEFA	Union of European Football Associations
WBA	West Bromwich Albion

Chapter 1 - Introduction

1.1 Overview of chapter

This chapter explains how football clubs originally formed for social purposes in the late nineteenth century were able to develop into business entities with a global fan base. It goes on to provide the rationale for this study; establishes the research aims and objectives; and introduces the concept of soft budget constraint.

1.2 Introduction to thesis

In June 1992, accountants Touche Ross published a 'Survey of significant accounting policies in football clubs'. The report was the first of what would later become the 'Deloitte Annual Review of Football Finance' and showed that during the accounting year ended 1991 the 22 football clubs playing in England's top league (Division 1) reported total revenue of £143 million and an aggregate pre-tax profit of just £52,000 (Touche Ross 1992:25). This represented a profit of just 3.6 pence for every £100 generated in revenue.

In 1991 neither the English Premier League (EPL) nor the UEFA Champions League existed, and revenue from broadcasting was limited through the duopoly enjoyed by the BBC and ITV. The EPL commenced in August 1992 since when broadcasters have paid large amounts for the exclusive rights to show live matches. During 2011 the 20 clubs that made up the EPL generated revenue of £2.3 billion (Calculated from aggregated financial statements of clubs in the EPL 2011). Despite this being 16 times greater than in 1991, clubs reported an aggregate pre-tax loss of £355 million (Calculated from aggregated financial statements of clubs in the EPL 2011).

Unlike other business sectors in which companies focus on profit maximisation the primary objective of a football club is playing success (Sloane 1971), however this should be balanced with sound financial management. For many clubs in the EPL increases in wages and transfer fees outstripped growth in revenue resulting in losses and a reliance on debt. A similar picture was seen in football leagues across Europe, and to address financial difficulties from 2012 UEFA introduced Financial Fair Play Rules (FFPR). More recently the EPL strengthened its own financial regulations through Short Term Cost Control (STCC) and Profitability and Sustainability rules.

Before considering the aims and objectives of this thesis it is worth briefly outlining key developments that have taken place in English football since the late nineteenth century. In this way it can be seen how football clubs formed primarily for social reasons developed into business organisations with a global fan base.

1.3 From social clubs to global businesses: the development of English football

1.3.1 The growth of football during the late nineteenth century

During the nineteenth century football was played in many English public schools to encourage teamwork and promote exercise (Mason 1980:11). However with no standard set of rules each school developed its own version of the game which caused problems when schools played against each other (Szymanski and Kuypers 1999:3). Football's popularity soon spread to the working classes and was helped by government legislation in 1874 that gave many workers Saturday afternoons off (Banks 2002:37). This new leisure time provided both an increase in participants and an audience to watch matches, and with little equipment needed football became an increasingly popular and cheap form of leisure activity.

Many factory owners encouraged the formation of works football teams believing organised leisure activities had a positive impact on morale and productivity (Mason 1980:29, Tranter 1998:59). This greatly assisted the rapid growth of football during the 1870s and 80s, especially in industrial towns in the Midlands and North West of England. Three of the EPL's best supported clubs originated from works teams of the late nineteenth century. Newton Heath (which later became Manchester United) was formed in 1880 by the Lancashire and Yorkshire Railway Works; West Ham United in 1885 by the Thames Ironworks; and Arsenal in 1886 by workers at Royal Woolwich Arsenal (Mason 1980:29).

Southampton, Queens Park Rangers (Szymanski and Kuypers 1999:3), Aston Villa and Bolton Wanderers were set up by local churches to promote healthy living and keep young men out of trouble (Mason 1980:25). The Wanderers and Blackburn Rovers were founded by the alumni of public schools and Oxbridge primarily for social reasons that enabled friends to retain contact (Szymanski and Kuypers 1999:3). Whilst Sheffield Wednesday, Preston North End and Everton were established by cricket clubs whose players wished to meet socially during winter (Mason 1980:31).

The formation of the Football Association (FA) in 1863 (Banks 2002:36, Holt 1998:85) enabled a formal set of rules to be established. In 1867 just ten clubs were affiliated to the FA (Mason 1980:31). By 1871 this had increased to 50, and by 1905 there were over 10,000 football clubs in England (1980:31).

The introduction of the FA Cup allowed clubs to compete against each other. Fifteen clubs entered the first competition in 1871-72 and the final was watched by over 2,000 spectators (Dobson and Goddard 2011:140).

1.3.2 Conversion to limited companies

Until the 1880s football clubs were managed by elected committees. However this inhibited the growth of clubs since in the event of insolvency, committee members were personally responsible for any debts incurred. As a consequence few committee members were willing to allow clubs to take out large bank loans, which restricted investment in players and facilities (Buraimo et al 2006:30). In 1888 Small Heath (now Birmingham City) was the first club to become a limited company (Szymanski and Kuypers 1999:5). As well as providing access to a wider range of funds, incorporation meant in the event of insolvency the liability of shareholders was limited to the amounts they had invested in a club. By 1921 the Football League comprised 86 clubs, 84 of which operated as limited companies (Dobson and Goddard 2011:187).

Conversion into limited companies was accompanied by a rise in commercialism as clubs sought to generate a return for shareholders. This was initially frowned on by the FA which was predominately run by 'gentlemen amateurs' (Buraimo et al 2006:30) who believed that limiting opportunities for commercialism ensured resources remained more evenly distributed between clubs (Platts and Smith 2010:645).

Paradoxically Szymanski and Kuypers (1999) argued that the FA Cup was responsible for changing the objectives of the largest football clubs. Once clubs started to compete against each other they needed to acquire the best players in order to win matches and attract supporters. This was the beginning of clubs starting to operate as businesses (1999:3).

1.3.3 Professional football

Concerned that professionalism would result in clubs being operated for profit, the FA initially tried to keep football amateur and under 'Rule 16' players were permitted only to

receive re-imbursement of travel expenses and compensation for loss of earnings while playing in the FA Cup (Banks 2002:38). However this proved difficult to enforce and although it is not known with certainty when players were first paid, Mason (1980) reported that by the 1880s a number of clubs were employing professional footballers (1980:70).

With many clubs having converted into limited companies and large numbers of spectators paying to attend matches, the FA came under pressure to remove Rule 16 and accept professional footballers. In 1884 Preston North End was disqualified from the FA Cup for paying wages to players (Mason 1980:74). In protest several clubs threatened to form a breakaway league and the FA was forced to either accept professionalism or go the way of rugby and have two separate codes – amateur and professional. In 1885 the FA recognised professional football and agreed to the payment of players (Platts and Smith 2010:645). This paved the way for the formation of the Football League in 1888 (Dobson and Goddard 2011:140) and ultimately the structure of English football as we know it today.

By 1891, 448 professional players were registered with the FA (Mason 1980:89), and in 1893 Athletic News Football Annual reported that the average professional wage was £3 per week in winter and £2 per week during the summer (1980:96).

1.3.4 The formation of the Football League

Professionalism and the growing popularity of football meant clubs had to invest in new facilities for supporters and incurred regular expenses including players' wages. In 1876 Aston Villa became the first club to charge spectators (Platts and Smith 2010:645), however revenue was irregular and limited to gate receipts from friendly matches or participation in the FA Cup. In 1888 the Football League (FL) was founded (Dobson and Goddard 2011:140). Initially comprised of 12 teams from the North West and Midlands of England its creation allowed the best supported clubs to generate a regular flow of revenue through playing competitive matches (2011:140). Despite the FA's reluctance to embrace commercialism, Arnold (1991) noted the clubs that were first invited to join the FL were those with the greatest number of spectators as these would generate most revenue (1991:180).

In 1893 a second division of 12 clubs was established, and by 1924 the FL comprised 88 clubs organised into four divisions (Dobson and Goddard 2011:140) with promotion and relegation between each division. The league expanded to 92 clubs in 1950 (Szymanski and

Kuypers 1999:142). Despite the popularity of football not all clubs generated a profit and in 1898-99 the FL asked members to contribute to a fund that would be used to help clubs in financial difficulty (Mason 1980:47).

1.3.5 Rule 34

As more clubs started to trade as limited companies, the FA initiated measures designed to maintain equity and restrict opportunities for individuals to profit from football. In 1896 the FA introduced 'Rule 34' which limited the maximum dividend payable to just 5% of the nominal value of share capital; prevented the payment of salaries and fees to directors (Platts and Smith 2010:646); and stated that in the event of a football club being wound up any surplus would be distributed to local sports clubs (Banks 2002:39).

This greatly reduced opportunities for individuals to profit from investing in football clubs and in 1909 Athletic News reported that 'No-one who is out for a business return would look at football shares' (Arnold 1991:182). Holt (1989) concurred and noted that during the 1908-09 season just six out of 62 clubs paid a dividend to shareholders (1989:283). Tranter (1998) and Holt both commented that profit maximisation was unlikely when stadia were used infrequently and most revenue was spent on players' wages (Holt 1989:285, Tranter 1998:61). However few shareholders complained suggesting that generating a high return was not the primary objective for investing in a football club (1998:61).

Rule 34 was only relaxed in 1981 when to attract fresh investment and professional managers into English football, the FA allowed remuneration of full time directors and increased the maximum dividend payable to 15% of the nominal value of share capital (Banks 2002:39).

1.3.6 Increased levels of commercialism

From the 1880s onwards the number of spectators paying to watch football increased rapidly. The 31 FA Cup ties played during the 1888-89 season attracted over 200,000 paying spectators, and the 1897 FA Cup final at Crystal Palace was watched by a crowd of 50,000 (Mason 1980:141). The newly formed FL also proved popular and matches played during its first season in 1888-89 were watched by 602,000 spectators (Mason 1980:143). By 1905-06 total attendances at FL matches exceeded 5 million (Mason 1980:143).

As well as increased leisure time Holt (1989) suggested growth in attendances was greatly assisted by the development of a cheap public transport network, particularly the railways that started to link industrial towns and cities (1989:166). Mason (1980) noted that during the 1880s railway companies provided special trains that carried supporters to watch away matches (1980:146).

As the popularity of football increased the largest clubs started to invest in new facilities. Between 1889 and 1910, 58 clubs moved to new grounds (Holt 1989:282) which allowed them to start charging a range of prices with higher admission for better standing areas, seats, and more attractive matches (Mason 1980:149). Despite the FA's reluctance to encourage commercialism, by the early twentieth century the largest football clubs in England had been transformed from social clubs into limited companies that operated as businesses.

1.3.7 The maximum wage and retain and transfer system

The formation of the FL also saw the imposition of a maximum wage and the introduction of the retain and transfer system that restricted the movement of players between clubs. These two developments gave clubs complete control over players and helped limit expenditure on wages until the early 1960s. They also prevented the best players from being acquired by just a few large clubs thereby promoting equity of resources. An example of how effectively this worked was shown in 1947 when Third division Notts County paid a record English transfer fee of £20,000 to buy Tommy Lawton (Szymanski and Kuypers 1999:143).

Under retain and transfer a player's registration was held by his club. Any player wishing to move to another club could do so only with the agreement of his current club and the payment of a transfer fee by the new club (Szymanski and Kuypers 1999:99). The system remained unchanged until 1961 when George Eastham challenged its legitimacy in court.

During Eastham vs Newcastle United the Judge described retain and transfer as an 'Unreasonable restraint of trade' (Arnold and Benveniste 1987:197). Following this case the transfer system was changed so that a club could only retain a player if at the end of his contract he was offered a new contract on at least the same terms. The retain and transfer system was finally abolished in 1978, after which 'freedom of contract' meant a player could

move at the end of his contract once a transfer fee was agreed between clubs (Szymanski and Kuypers 1999:105). This system operated until changes following the Bosman ruling in 1995.

The first maximum wage of £4 per week was agreed in 1900 (Szymanski and Kuypers 1999:89) and set at a rate comparable with the highest wages earned by skilled workers (Mason 1980:100). However unlike other skilled workers, retain and transfer meant footballers were prevented from moving freely between employers.

By 1909 the maximum wage had increased to £5 per week (Holt 1989:293), however there was no minimum wage and research by Tranter (1998) showed that in 1910 although 6,800 professional footballers were registered with the FA, just 577 earned the maximum wage (1998:69). Similarly Holt (1989) noted that in 1934-35 Sheffield United had 21 players just four of whom earned the maximum wage (1989:293). When it was abolished in 1961 the maximum wage was £25 per week (Banks 2002:163); within a few weeks Fulham was paying club captain Johnny Haynes £100 per week (Dobson and Goddard 2011:181).

Dobson and Goddard (2011) observed that between the 1920s and late 1950s increases in ticket prices were in line with rises in the maximum wage (2011:180). Following its abolition players' wages increased rapidly. Although between 1961-74 aggregate revenue generated by FL clubs increased by 30%, wages increased by around 90% (2011:181).

Szymanski and Kuypers (1999) explained that the maximum wage ensured the differential between first and third division clubs remained relatively small. In 1956 the total wages paid by first division clubs was just over double that paid by clubs in the third division (North and South) (Szymanski and Kuypers 1999:96). Abolition of the maximum wage meant the wealthiest clubs could offer large amounts to attract the best players. In 2014-15 EPL clubs spent £2 billion on wages (Calculated from aggregated financial statements of clubs in the EPL 2015) compared with £59 million spent by League 2 clubs (Deloitte 2016:25), a multiple of 34 times.

1.3.8 Growing disparities in revenue

Urbanisation during the late nineteenth century meant clubs based in cities attracted the largest numbers of supporters and hence generated most revenue. During the late twentieth century improved transport links and growth of car ownership enabled

supporters to travel to larger clubs in urban areas thereby taking away revenue from smaller clubs in less populated towns (Platts and Smith 2010:649).

FL attendances peaked at 41.3 million during 1948-49 after which there followed a steady decline to 16.5 million by 1985-86 (Platts and Smith 2010:648). Dobson and Goddard (1998) explained this was due to several factors including a lack of investment in stadia, an increasing number of alternative leisure activities, recession, and the impact of hooliganism during the 1970s and 80s (1998:768). Szymanski (2006) observed that by the mid-1970s football was a pursuit followed predominantly by young, working class men and hooliganism was on the rise (2006:460).

By 1984-85 FL attendances were just 53% of the 1958-59 level, however increased ticket prices meant matchday receipts for first division clubs had grown by 95% (Arnold and Benveniste 1987:196). Over the same period fourth division clubs saw matchday receipts decline by 33% (1987:197).

To help overcome disparities the FA introduced the sharing of gate receipts in the early 1920s which meant the away team received 20% of match receipts (after allowing for matchday expenses) (Dobson and Goddard 1998:780). In addition all clubs paid 4% of net match receipts into a pool that was distributed equally between them (Arnold and Benveniste 1987:198). Money from Pools companies in return for the use of FL fixture lists was also divided equally between clubs (Arnold and Benveniste 1987:198). Until 1988 broadcasting revenue was also shared equally, despite broadcasters preferring to show matches featuring Division 1 clubs (Dobson and Goddard 1998:779). These measures meant larger, better supported clubs in the FL to some extent cross subsidised smaller clubs.

Declining attendances accompanied by rising transfer fees and wages meant that by the early 1980s the wealthiest clubs were increasingly reluctant to cross subsidise smaller clubs. The sharing of gate receipts was abolished in 1983 enabling the home club to retain all revenue from league matches (Dobson and Goddard 1998:780). Whilst in 1986 the 4% levy fell to 3%, before reducing further still in 1992 when clubs in the newly formed EPL withdrew from the scheme (Dobson and Goddard 1998:780).

1.3.9 The distribution of broadcasting revenue

For many years the FA rejected all attempts by the BBC and ITV to broadcast live league matches fearing this would lead to overexposure and adversely impact on attendances (Platts and Smith 2010:646). In 1964 the BBC launched 'Match of the Day' when it paid just £3,000 to screen highlights of matches on Saturday evenings (Banks 2002:104). In 1965 competition from ITV forced the BBC to pay £60,000 to retain its highlights package (2002:105). However revenue from broadcasting was divided equally between all 92 league clubs. As a consequence in 1967-68 each club received £1,300 from broadcasting; and by 1978-79 this had increased to just £5,800 (Dobson and Goddard 1998:777).

Live league matches were broadcast for the first time in 1983 after the BBC and ITV agreed to pay £5.2 million over two years to screen 10 matches each season (Table 1.1). To minimise the impact on attendances televised matches were played on a Friday evening or Sunday afternoon (Banks 2002:106). With revenue shared equally, each club in the FL received around £28,000 per season (Dobson and Goddard 1998:779).

Year	Length of contract	Broadcaster	Live matches per season	Annual fee £m	£m per match
1983	2 years	BBC - ITV	10	2.6	0.26
1985	6 months	BBC - ITV	6	1.3	0.22
1986	2 years	BBC - ITV	14	3.1	0.22
1988	4 years	ITV	18	11.0	0.61
1992	5 years	BBC - BSkyB	60	42.8	0.71

Table 1.1: Amounts paid for broadcasting of live televised football 1983-1992
(Source: Baimbridge et al 1996:314)

By the late 1980s many of the largest clubs in Division 1 were becoming frustrated that broadcasting revenue was shared equally between all 92 league clubs. In 1988 ITV agreed to pay £44 million over four years to show 18 live matches each season (Table 1.1). However with the top clubs in Division 1 threatening to break away and make their own arrangements with broadcasters, it was agreed that revenue would not be shared equally. In 1988-89 clubs in Division 1 received almost £8.25 million which represented 77% of the total amount paid by ITV; of this £3.5 million (32% of broadcasting revenue) went to the five clubs that appeared most often on television during that season (Arsenal, Everton,

Liverpool, Manchester United and Tottenham) (Dobson and Goddard 1998:779). This further increased disparity in revenue.

1.3.10 'The Blueprint for the Future of Football'

The impact of hooliganism, decades of little investment in stadia, and the death of spectators at Bradford (1985), Heysel (1985) and Hillsborough (1989) meant that by the late 1980s English football was in crisis. Banks (2002) explained that continued power struggles between the FL and FA prevented implementation of a strategy to aid its recovery (2002:57). The situation was not helped by the largest clubs in Division 1 threatening to form a breakaway league and negotiate contracts that would enable them to retain all broadcasting revenue. However without FA backing a breakaway league was unlikely since clubs required FA support in order to participate in European competition (2002:56).

In 1990 the FL published 'One Game, One Team, One Voice' in which it suggested a merger with the FA (Hudson 2001:2). To prevent the top clubs forming a breakaway league, the document proposed that the new body would run football and ensure money from broadcasting and commercial sources was distributed in an appropriate way (2001:2).

In response and in an attempt to gain the upper hand over the FL, in 1991 the FA published 'The Blueprint for the Future of Football' in which it proposed the creation of a Premier League (PL) initially comprised of 22 teams (Szymanski and Kuypers 1999:255, Banks 2002:57) with relegation and promotion between the PL and FL.

The most important proposal in the 'Blueprint' was that the PL would negotiate the collective sale of its broadcasting rights, and revenue from this would be shared between just those clubs in the PL. The 'Blueprint' also suggested that football should seek to gain more middle-class consumers (Conn 1999:49), forecasting the PL could generate £112 million per season through broadcasting and improved marketing (Conn 1997:149).

Before the start of the 1991-92 season all clubs in the first division gave 12 months' notice of their intention to resign from the FL. In August 1992 the EPL commenced; reducing to 20 clubs in 1994 (Banks 2002:59).

Since its formation the FA had tried to ensure equity of resources between professional clubs, and through Rule 34 had tried to reduce opportunities for shareholders to profit from

their investment in clubs. In supporting creation of the EPL Conn (1997) commented that 'The FA, to its shame, betraying its historic role as regulator, controller of commercialism for the wider good of football, was to put its name to the breakaway, which would make a fortune for the owners of the big clubs and open up enormous inequality in football' (Conn 1997:17).

1.3.11 The formation of the EPL and growth in broadcasting revenue

Szymanski and Smith (1997) concluded that between 1974-89 English football was a mature industry in decline (1997:149). Lonsdale (2004) concurred and suggested that three unrelated events aided the recovery of English football. The Taylor report (1990) led to massive investment in all seat stadia (Lonsdale 2004:383) and between 1992-2012 English professional clubs invested over £3.3 billion in new facilities (Deloitte 2013:54). England's performance at the 1990 World Cup finals revived national interest in football; and Rupert Murdoch saw the potential to use football as the catalyst for subscription television in the UK (Lonsdale 2004:383).

In 1992 Murdoch's BSkyB transformed the finances of EPL clubs when it paid £192 million for the exclusive right to broadcast live matches for a five-year period (Szymanski and Kuypers 1999:59). Hamil and Walters (2010) noted the formation of the EPL fortuitously coincided with the UK economy coming out of recession and a decade of sustained economic growth (2010:357), conditions that greatly assisted the expansion of subscription television.

As table 1.2 shows, during the last 20 years BSkyB has been forced to pay large amounts to retain the right to broadcast live matches. During this period football was re-marketed as a fashionable and attractive leisure activity (Dobson and Goddard 1998:769) and funded by broadcasting revenue, EPL clubs were able to attract high profile players from overseas. Although we have seen increases in the price of tickets, and despite up to 154 live matches being broadcast each season, attendances have continued to grow and in 2014-15 the EPL reported stadium utilisation above 95% for the third consecutive year (Premier League 2015a:18).

Using data from the 1993-94 season Baimbridge et al (1996) studied the impact of live televised football on attendances at EPL matches. Their findings showed attendances at

matches played on a Sunday were not affected by that match being broadcast live. This led Baimbridge et al to comment that 'Broadcast fees relating to these fixtures represent pure revenue to the clubs' (1996:330). Matches broadcast on a Monday evening saw gate receipts decline by on average £33,516 (1996:329); with a club receiving around £89,000 each time it appeared in a match broadcast live on television (1996:329), this more than compensated for the decline in gate receipts. The study by Baimbridge et al was limited in that it was based on data from just one season, and in 1993-94 fewer houses subscribed to BskyB which broadcast just 60 live matches compared with 168 live matches shown during 2016-17 (Table 1.2).

Year	Length of contract	Live rights Broadcaster	Live matches per season	Annual rights fee for live football £m	Highlights broadcaster	Annual rights fee for highlights package £m
1992	5 years	BskyB	60	38.3	BBC	4.6
1997	4 years	BskyB	60	167.0	BBC	18.3
2001	3 years	BskyB	66	343.0	ITV	56.7
2004	3 years	BSkyB	138	341.3	BBC	35.0
2007	3 years	BSkyB - Setanta	138	564.0	BBC	57.2
2010	3 years	BSkyB - Setanta	138	594.0	BBC	57.2
2013	3 years	BSkyB - BT	154	1,006.0	BBC	59.9
2016	3 years	BSkyB - BT	168	1,713.3	BBC	68.0

Table 1.2: Amounts paid for EPL domestic broadcasting rights 1992-2016
(Source: 1992-2004 Buraimo et al 2006:33; 2007 Live matches BBC News 2006a; 2007 Highlights BBC News 2006; 2010 Live matches BBC News 2009; 2010 Highlights Gibson 2009; 2013 Live matches Pearce 2012; 2013 Highlights BBC News 2012; 2016 Live matches Gibson 2015; Highlights Sale 2015)

Using data from 2003-04 to 2006-07 Buraimo et al (2010) studied the impact of broadcasting live matches on attendances in the EPL and Spanish Primera Liga. They found that in the EPL attendances for matches televised at the weekend were reduced by 3%, whilst attendances at matches broadcast on weekdays fell by 8% (2010:471). The authors concluded that the scale of EPL broadcasting contracts meant clubs were appropriately compensated for any fall in attendances caused by live matches being televised (2010:470).

Surprisingly Buraimo et al made no reference to the global audience that watched televised live matches. This was likely to increase brand awareness and generate further revenue for clubs from merchandising and other commercial activities.

These studies suggested the FA's original stance against broadcasting live matches was incorrect. Rather than reducing attendances, broadcasting live EPL matches raised both the popularity and global profile of English football as well as providing a significant source of revenue for clubs.

1.3.12 Raising capital through the London Stock Exchange

King (1997), Banks (2002), Beech (2010) and Dobson and Goddard (2011) observed that although most football clubs were limited companies, until the mid-1980s the way in which they operated had not changed significantly since the late nineteenth century (Banks 2002:39). Shareholders and directors were usually wealthy businessmen who invested in their local clubs for a variety of reasons including prestige in the local community; because they enjoyed watching their local team; or in order to use their influence to win contracts to sell their own goods and services to the club (Mason 1980:49, Holt 1989:285). Although directors did not receive a salary, and dividends to shareholders were small, there were several examples of directors and shareholders making financial gains from their involvement with clubs.

During the early twentieth century H.E.Mears, a director at Chelsea profited by renting the Stamford Bridge stadium to the club and from a concession to sell all food and drink within the stadium (Mason 1980:45). John Houlding profited from his position on the board at Everton by renting land and lending money to the club, and from selling food and drink in the stadium. In 1882 the rent became so excessive that a majority of shareholders voted to move to a new stadium at Goodison Park. Houlding's response was to form a new club - Liverpool (Holt 1989:285). Banks (2002) noted that during the 1950s a company owned by Burnley's Chairman Bob Lord supplied pies to the club. Lord was very vocal in his opposition to the broadcasting of live matches fearing this would adversely impact on attendances and hence on sales of his pies (Banks 2002:40).

Whilst directors provided funds for clubs from personal savings or through acting as a guarantor for bank loans, Szymanski and Smith (1997) suggested they often followed non-

profit objectives and therefore had little incentive to invest in changes and new facilities that would be in the general interest of the industry (1997:149).

Occasionally clubs would benefit from significant investment by a wealthy supporter who was more interested in playing success than earning a return on their investment. Szymanski and Kuypers (1999) referred to Jack Walker who acquired a 62% stake in Blackburn Rovers in January 1991. During the next few years he spent £55 million of his personal fortune buying players and improving the stadium. Although the company paid no dividends, Walker's investment saw Blackburn Rovers become EPL champions in 1995 (1999:17).

In October 1983 Tottenham Hotspur became the first football club to float its shares on the London Stock Exchange, raising £3.3 million (Dobson and Goddard 2011:188). To circumvent FA Rule 34, directors created a holding company with the football club as a subsidiary (Hamil and Walters 2010:19). No football clubs followed Tottenham onto the Stock Exchange until 1989 when Millwall raised £4.8 million, and 1991 when Manchester United raised £6.7 million (Dobson and Goddard 2011:188).

The Taylor report in 1990 recommended the introduction of all seat stadia for clubs in England's first and second divisions by 1995, and to raise funds several clubs turned to the London Stock Exchange (Banks 2002:41). With clubs able to circumvent Rule 34; a decline in hooliganism; the re-admission of English clubs into European club competition; and the broadcasting revenues offered by BSkyB; football was more attractive to investors. By 2000, 22 English football clubs had floated on the London Stock Exchange raising in total £167 million (Hamil and Chadwick 2010:20).

Investor interest in the football sector was short lived. Despite increased revenues football clubs remained relatively small businesses that often struggled to break-even. With playing success the primary objective for most clubs, dividends and returns to investors were relatively low. In addition share prices were often highly volatile. Writing in Hamil et al (2000), Hawkins noted that shares in Sheffield United and Bolton fell by around 30% when the clubs were relegated from the EPL in 1997 and 1998 respectively (2000:142). Szymanski and Kuypers (1999) observed that Manchester United's share price was adversely affected by Eric Cantona attacking a Crystal Palace supporter in 1995, and an unexpected defeat by

Galatasaray in the UEFA Champions league in 1994 (1999:74). As a consequence several clubs de-listed after just a few years.

In 2012 Manchester United's owners (The Glazer family) raised over $230 million by selling 16.6 million shares on the New York Stock Exchange (NYSE) (Ross 2013:2). Ross (2013) explained that $120 million of this was used to reduce debt and the balance taken out of the club by the Glazers (2013:3). The existence of the dual class voting structure in the US (2013:22) meant the Glazers gave up just 2% of voting rights (2013:4), and Ross suggested the introduction of Financial Fair Play (FFP) might see more clubs raising funds in this way (2013:31).

1.3.13 The Bosman ruling

When Belgian footballer Jean Marc Bosman's contract expired on 30 June 1990, his club RC Liege offered a new contract that reduced his salary by 75% (Morris et al 1996:893). After a proposed transfer to French club Dunkerque fell through, Bosman took RC Liege and UEFA to court for restraint of trade.

Even before the Bosman case the European Parliament had been highly critical of the transfer system employed by European football clubs. The Janssen Van Raay 'Report of the Committee of Legal Affairs and Citizens' Rights on the Freedom of Movement of Professional Footballers in the Community' was presented to the European Parliament in 1989 and described the football transfer system as 'A latter day version of the slave trade' (Morris et al 1996:894).

In December 1995 the European Court of Justice concluded that the transfer system was incompatible with Article 48 of the Treaty of Rome which related to freedom of movement of EC labour (Simmons 1997:13). Initially this meant out of contract players were free to move between clubs in different EU countries without payment of a transfer fee (1997:14). However this was extended in March 1997 when FIFA announced that where a player was out of contract, transfer fees in the EU were no longer required (Crolley et al 2002:283).

Speaking soon after the Bosman ruling, Sir John Hall the Chairman of Newcastle United perceptively suggested that any money saved on transfer fees would instead be spent on players' salaries and signing on fees (Simmons 1997:18). He also believed players would receive longer contracts (Simmons 1997:18), all of which placed greater financial pressure

on clubs. Following on from abolition of the maximum wage and retain and transfer system, the Bosman ruling completed the shift in power from clubs to players.

1.3.14 Overseas investment in English football

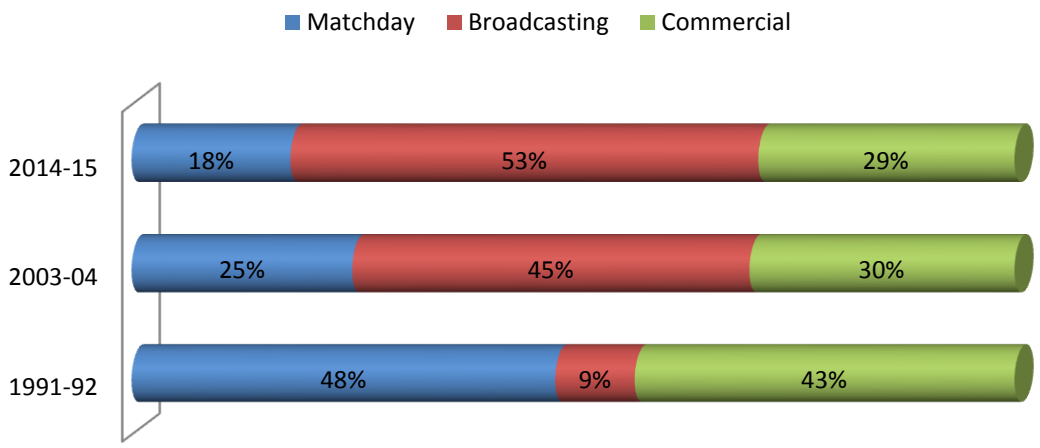
During the last fifteen years we have witnessed massive overseas investment in EPL clubs. Nauright and Ramfjord (2010) explained that investment in stadia during the 1990s accompanied by rising ticket prices, increased merchandising, and corporate hospitality changed the make-up of supporters and increased the number of families attending matches (2010:436); which was exactly what the FA's 'Blueprint' had suggested. The EPL currently generates more revenue than any football league in Europe and matches are watched in 725 million homes in 185 countries (Premier League 2015a:23). Walters and Hamil (2010) suggested that overseas investors were also attracted by the prestige associated with owning a club in the EPL and the opportunity to develop a global brand in overseas markets (2010:26). During the 2014-15 season 11 clubs in the EPL were owned by overseas investors (UEFA 2015a:54).

In December 2015 China Media Capital acquired a 13% stake in Manchester City for £265 million (Wilson 2015). This valued the club at £2 billion, and although Professor Chris Brady at Salford University suggested 'The investment probably overvalued City' (Wilson 2015), it demonstrated that overseas investors are interested even in acquiring a minority stake in EPL clubs. However there was concern that several clubs in the EPL were over-reliant on funds provided by wealthy owners, and in the event of financial support being withdrawn these clubs could find themselves in severe financial difficulties (Solberg and Haugen 2010:340, Hamil and Walters 2010:364).

1.3.15 Changes in the composition of revenue

During 1991-92 clubs in England's top division generated aggregate revenue of £170 million (Deloitte 2013:30), of which 48% was from matchday and just 9% from broadcasting (Figure 1.1). During the 2014-15 season clubs in the EPL generated total revenue of £3.4 billion (calculated from aggregated financial statements of clubs in the EPL 2015), however just 18% was from traditional matchday receipts (Figure 1.1). Since 1992 broadcasting has grown in importance and in 2014-15 accounted for 53% of aggregate revenue. The largest clubs were able to exploit the EPL's global fan base and in 2014-15 commercial activities made up 29% of aggregate revenue (Figure 1.1).

Figure 1.1: Changes in the make-up of aggregate revenue between 1992 and 2015 (Source: 1991-92 and 2003-04 Deloitte 2012:30; 2014-15 Calculated from financial statements of clubs in the EPL 2015)



1.3.16 Poor financial performance and increased financial regulation

Hamil and Walters (2010) observed that although between 1992-2007 aggregate revenue increased by 900% to £1.5 billion, 'There has not been a single year since its foundation when the combined PL clubs have made a collective pre-tax profit' (2010:354). They explained this was primarily because, 'The vast proportion of increased revenue…has been transferred to the elite players in increased wages' (2010:362). Poor control of costs meant aggregate pre-tax losses in 2011 exceeded revenue generated during the first year of the EPL; and aggregate debt of £2.8 billion indicated that several clubs were reliant on borrowed funds (calculated from aggregated financial statements of clubs in the EPL 2011). This situation wasn't unique to English football and in 2012 FFP was introduced for clubs that wished to play in UEFA competitions. More recently the EPL strengthened its own financial rules.

1.4 The impact of a soft budget constraint

Previous studies by Sloane (1971 and 2015), Arnold (1991), Storm (2011), Zoccali (2012) and others demonstrated that the primary objective of European football clubs was playing success. Although this explained why clubs didn't report large profits it didn't make clear why so many were able to continue to operate despite large losses and negative equity. Referring to socialist economies including Hungary, Poland and Bulgaria, Kornai (1979) explained that a hard budget constraint meant the continued operation of an organisation was dependent

on it generating sufficient revenue to cover expenses (1979:806); and debt was provided under 'Conservative and orthodox conditions' (1979:806). This meant an organisation's growth was organic and relied on how effectively it used resources to generate profits over a number of years (1979:807).

This was contrasted with a soft budget constraint where 'The state helps the firm out of trouble' (1979:806) through the provision of additional financial resources. These included subsidies, favourable tax conditions (1979:806), and loans on preferential terms (Kornai et al 2003:1102). This meant even though an organisation might consistently report large losses, 'The paternalistic state guarantees automatically the survival of the firm' (Kornai 1979:806).

Kornai (1979) and Kornai et al (2003) explained that under a soft budget constraint financial support was not a one-off occurrence, and 'Once the problems arise, the likelihood of continued support is well understood by all parties concerned' (2003:1100). It was argued this changed the behaviour of an organisation since with losses and poor performance shielded by the state, cost discipline was reduced; there was little incentive to innovate; and an increased probability that poor investment choices would be pursued (2003:1112).

In support of this argument Kornai et al referred to not for profit organisations, banks and poor performing companies that had previously been state controlled, all of which had received financial assistance from governments (2003:1097). Motives for providing a soft budget constraint included the impact of failure on employees, suppliers and the wider economy (2003:1099); prohibitively high costs faced by tax authorities and banks through enforcing closure (2003:1098); and providing continued support to protect previous investment that would be lost if the organisation failed (2003:1099).

Research by Andreff (2007), Storm and Nielsen (2012), Franck (2013) and Franck and Lang (2012) showed that several European football clubs benefited from a soft budget constraint. This meant if revenue did not fully cover expenses, additional funds would be made available by stakeholder groups including central and local government, wealthy owners, investors or supporters (Andreff 2007:657). Although from a financial perspective football clubs were not large organisations, supporters and other stakeholders considered them as 'too big to fail' (Storm and Nielsen 2012:190) and provided the funds necessary to cover large deficits.

Storm (2011) explained that provision of a soft budget constraint reduced cost discipline and forced all clubs to spend increasing amounts in pursuit of playing success (2011:742). This resulted in what Storm and Nielsen (2012), Franck (2013) and Morrow (2013) described as the 'sporting arms race'. To address this regulatory bodies including UEFA and the EPL, strengthened financial regulations. FFP did this by requiring clubs to break-even (or achieve an acceptable deviation from this), whilst STCC restricted growth in wages from centrally allocated funds.

1.5 Rationale for this study

The purpose of this thesis is to examine how the provision of a soft budget constraint and stricter regulation impacted on the performance of clubs in the EPL. Since 1992 the EPL has seen rapid and sustained growth in revenue and a movement away from traditional revenue streams. In the accounting year ended 1992 just four clubs in division 1 reported revenues in excess of £10 million (Observed from Touche Ross 1993:22). By 2015, fourteen clubs in the EPL earned revenues above £100 million (Observed from financial statements of clubs in the EPL 2015). Growth in revenue was driven primarily by broadcasting contracts. By 2015 broadcasting was responsible for 73% of revenue earned by those clubs outside the top six in the EPL (Figure 4.5), and there were concerns that several clubs were very reliant on this revenue stream.

Despite growth in revenue poor control of key costs including wages, amortisation, and interest payable meant the EPL reported aggregate losses in every year between 2004-13; and a review of financial statements for this period showed that 36% reported a loss from operating activities (Table 4.14).

Since 1992 we have seen different types of ownership model employed in the EPL including the stock market model (during the mid to late 1990s); wealthy domestic investor model; and more recently wealthy foreign investor model (Wilson et al 2013:23). The wealthy investor model was usually accompanied by a soft budget constraint that encouraged excessive spending in pursuit of playing success. Often this was funded by soft debt rather than equity and meant that although in 2015 the EPL had aggregate debt of £2.9 billion, almost £1.9 billion was soft loans from owners and related parties (Calculated from aggregated financial statements of clubs in the EPL 2015). The provision of funds through

soft loans meant 51% of financial statements published during the period 2004-13 showed negative equity (Table 4.14). Poor financial performance saw stricter regulation by UEFA and the EPL.

1.6 Research aims and objectives

This thesis will address the research question:

To what extent did soft budgets and increased financial regulation impact on the performance of English Premier League football clubs 2004-2015?

The following research aims and objectives will enable the thesis to answer this question:

Research aims

a) To apply a range of financial measures to assess the financial performance of clubs in the EPL.
b) To establish how soft budgets impacted on the performance of clubs in the EPL during the period 2004-2015.
c) To identify those characteristics most likely to cause financial distress at football clubs.
d) To evaluate the effectiveness of financial regulation and the implications this is likely to have on the performance of clubs in the EPL.

Research objectives

a) To assess key revenue streams exploited by clubs in the EPL.
b) To select a number of relevant accounting ratios and use these to analyse profitability, control of costs, and reliance on debt for clubs in the EPL.
c) To examine how clubs in the EPL are funded and assess whether they are dependent on owner support.
d) To examine whether increased regulation improved the financial performance of clubs in the EPL.

1.7 Thesis structure

To address the research aims and objectives the remainder of this thesis is structured as follows:

- Chapter two provides a review of relevant literature and details the requirements of increased financial regulation by UEFA and the EPL.
- Chapter three explains the methodology and research methods used in this thesis.
- Chapter four analyses data used in this study to examine why despite significant growth in revenue several clubs reported losses and increasing levels of debt.
- Chapter five is a discussion of results that considers evidence of a soft budget constraint and the impact of increased financial regulation by UEFA and the EPL.
- Chapter six presents conclusions, contribution to knowledge, limitations of this study and areas for further research.

Chapter 2 - Literature review

2.1 Overview of chapter

The literature review is broken down into four sections. To develop a better understanding of the football sector the first section examines the objectives of football clubs and the implications these have for financial performance. With many clubs reporting losses and reliant on a soft budget constraint it is necessary to consider previous studies into the need for greater financial regulation and outline the requirements of FFP and EPL rules. This thesis makes use of published financial statements so it important to be aware of the framework that underpins the financial reporting system, including the accounting treatment of players' registrations. To be aware of the uses and limitations of accounting ratios it is necessary to appraise previous studies that have used this technique, including those that have examined the financial performance of European club football.

2.2 The objectives of football clubs and the need for increased financial regulation of European club football

2.2.1 The conflict between playing success and financial return

Football has a number of characteristics that distinguish it from other business sectors. Sloane (1971:123), Arnold (1991:180), Lago et al (2006:4), Farquhar et al (2005:337) and Gratton (2000:11) all commented on the interdependent relationship that requires a football club to work with rivals to produce a product that supporters and broadcasters wish to purchase. In addition they suggested that supporter interest was likely to be greater when there was uncertainty surrounding the outcome of matches. As a consequence greater financial success was usually dependent on parity between competing clubs.

In their analysis of the financial performance of clubs playing in Italy's Serie A, Risaliti and Verona (2012) explained that football clubs were not solely interested in profit maximisation but had several sometimes-conflicting objectives including those related to sporting performance, attracting spectators and prestige in the local community (2012:16). All of which made football clubs unique business entities (2012:16).

Through the application of economic theory Neale (1964) identified differences (or peculiarities) between normal firms operating in a competitive market and professional

sport. Neale suggested that although the best market position for a normal firm was to operate with little or no competition, ideally as a monopolist (1964:1), this would not suit professional sport where competition was necessary to increase spectator interest (1964:2). He identified that a professional sports club could not produce a sports event on its own and required the co-operation of competing sports clubs, paying spectators, broadcasters, and other media (such as newspapers) to generate interest in the outcome of sporting events (1964:4). He also observed that a highly competitive league generated greater interest and hence increased revenue (1964:3).

Neale explained that usually firms made decisions in order to generate profits (1964:4), however in professional sport the 'firm' was the league which had a natural monopoly. So although made up of several separate entities, the league made decisions to help maximise the profits of member clubs (1964:5). Although Neale's analysis was written over 50 years ago and focused on North American professional sports clubs (particularly baseball and NFL) it remains relevant today and can be applied to the EPL.

Nalebuff and Brandenburger (1996) explained that competing businesses can benefit through co-operating with rivals. They called this 'co-opetition' which was a term used by Ray Noorda, founder of Novell who explained 'You have to compete and co-operate at the same time' (Nalebuff and Brandenburger 1996:4). Using a database comprised of sporting and financial performance indicators for all 40 professional clubs during the 2005-06 season, Robert et al (2009) applied the concept of co-opetition to French professional football (2009:31). They explained that clubs competed in league matches with the least successful relegated at the end of each season (2009:28). They also competed for additional financial resources, including revenue from sponsors (2009:27). The main revenue stream for clubs in Ligue 1 was broadcasting, and collective negotiation of broadcasting rights was beneficial for all clubs and relied on co-operation between them (2009:27). Although an interesting application of co-opetition, to increase generalisability of results it would have been useful to consider more than one year of data and other European leagues.

Applying economic theory to clubs in the English Football League, Sloane (1971) examined the characteristics of the football industry. Although most clubs were limited companies, Sloane believed few shareholders were primarily interested in financial gain (1971:131). He

explained that in March 1969 Aston Villa had offered 20,000 shares for sale at £5 each (1971:134). The club had made large losses during four of the previous five years; was unlikely to pay a dividend in the foreseeable future; and under FA rules any dividend was limited to just 5% of the nominal value of share capital (1971:134). Although it appeared to be a poor investment the share issue was over-subscribed (1971:134).

Based on his analysis Sloane concluded that the primary objective for football clubs was utility (or win) maximisation (1971:133). This meant stakeholders including supporters, shareholders and directors were most concerned with playing success, however this must be achieved within financial constraints (1971:135).

Sloane also explained that strong competition within a league created uncertainty in the outcome of matches. This led to greater interest in matches which in turn increased attendances and matchday revenue. He observed that financial arrangements in existence at the time of his research, including sharing of gate receipts and the equal distribution of broadcasting revenue between league clubs helped re-distribute wealth and promoted healthy competition (1971:124). He feared that without this cross subsidisation, smaller clubs would either go out of business or there would be a decline in the quality of football which would adversely impact on aggregate revenue (1971:127).

Sloane disagreed with the FA's stance on broadcasting live league matches. Writing long before the arrival of BSkyB he argued rather than reducing matchday receipts, broadcasting live matches provided an opportunity to promote football. He compared this with the huge amounts a manufacturing company would need to spend on advertising to generate similar publicity (1971:126).

Even though Sloane's article was written over 40 years ago it contained several points that remain relevant today. The equitable distribution of broadcasting revenue between clubs in the EPL ensures that matches remain highly competitive. As a consequence EPL matches attract a global television audience, and average stadia utilisation has exceeded 90% in every season since 1997-98 (Deloitte 2013:56, Premier League 2015).

Sloane (2015) revisited the industry to assess whether the formation of the EPL, Bosman ruling, and FFP had changed the objectives of clubs (2015:1). He observed that wealthy

owners encouraged 'riskier investment strategies' (2015:4) and concluded that European clubs remained utility maximisers subject to a break-even constraint (2015:1).

Using published financial data for four football clubs in West Yorkshire during the period 1905-85, Arnold (1991) showed the primary objective was sporting success and to achieve this clubs invested large amounts in players (1991:184). During the period under review he observed that revenue became concentrated in the hands of the largest clubs, and with clubs primarily concerned with playing success wages increased significantly (1991:187).

In considering the reliability of Arnold's research it must be noted that his findings were based on a very small sample of clubs clustered around the same geographic region. In addition the comparison of financial data over such a lengthy period is made difficult through changes in the accounting policies adopted by clubs, added to which the quality of some pre-war data may not be very reliable.

Although Kesenne (2000) also observed that the primary objective for most professional football clubs in Europe was win maximisation (2000:62), he believed this was changing and referred to the EPL where several clubs had raised capital through issuing shares on the London Stock Exchange. As a consequence he suggested that for larger clubs the generation of profit was becoming more important (2000:62). Kesenne argued that a profit motive for larger clubs would assist in restoring competitive balance within leagues. With an eye on generating profit larger clubs would be forced to spend less money acquiring players which meant the best footballers would not all be purchased by just a few wealthy clubs. This would result in a more equal distribution of playing talent between clubs (2000:63).

However this argument does not take into account disparities in revenue which have enabled the largest clubs to continue to acquire the best players and still generate a profit. In addition Kesenne didn't appear to take into consideration that it was often supporters who acquired shares in those clubs that floated on the London Stock Exchange. These investors were usually more concerned with playing success than making a financial return on their investments.

Storm (2010) explained that although previous research had suggested European professional sports clubs were primarily focused on win maximisation (2010:93), there were

other objectives that clubs had to consider (2010:94). Storm identified six functions that impacted on the decisions taken by European professional sports clubs. These were win maximisation; financial objectives; developing successful working relationships with mass media organisations; political (compliance with the requirements of domestic football associations, UEFA and FIFA); legal (compliance with EU legislation); and science (the use of up to date methods to ensure players were properly prepared for matches) (2010:103).

These diverse and often conflicting objectives made it increasingly difficult for directors to manage the day to day activities of professional sports clubs (2010:94) and meant clubs had changed from homophonic into polyphonic organisations (2010:98). A homophonic organisation has one primary function (2010:99). A polyphonic organisation has several functions which makes the decision-making process more complex (2010:100). Storm concluded that although professional football clubs were primarily driven by sporting success, increased commercialism meant other objectives had arisen which made the decision-making process more complex.

In a review of literature on the objectives of professional sports clubs Storm (2011) explained that although football clubs in England, Italy, Spain and Scandinavia had become more commercialised, and even though some had floated on national stock exchanges, there was little evidence to suggest that profit had replaced winning as the primary objective (2011:739). He explained that in most European leagues there were large differences in revenue between first and second tiers, and this encouraged clubs in the top tier to spend heavily to avoid relegation, and those in the lower tier to spend heavily to win promotion (2011:741). In this dynamic environment even successful clubs were forced to invest significant amounts to ensure continued success (2011:742).

By reviewing sporting success and pre-tax profit Storm established that just two clubs in Denmark's top league achieved sporting and financial improvement during the period 1997-2008 (2011:748). He concluded that although the primary objective of European football clubs was playing success, in recent years there had been a greater focus on achieving this within financial constraints (2011:737). Storm acknowledged that using just two variables was very simplistic since most clubs had a range of objectives (2011:749).

Gratton (2000) observed that in North American professional sport several measures had been put in place to ensure matches remained competitive. These included revenues from television and sponsorship being shared equally between clubs; the draft system which allowed those clubs that finished in the lowest league positions to have first choice of college players at the start of the next season; and salary caps that prevented the richest clubs attracting the best players through offering the highest wages (2000:14). In this way the league acted as a cartel that promoted equity and ensured no club became too dominant (2000:14). Gratton suggested that in North America both the league and clubs were profit maximisers (2000:15). However there was potential conflict between the objectives of the league which wanted to ensure competitive balance, and clubs that sought sporting success (2000:15).

Gratton observed that until the late 1980s North American sports clubs had little in common with English football clubs (2000:17) whose primary aim was sporting success (2000:18). During the 1990s the Taylor Report, raising funds on the London Stock Exchange (2000:18), and growth in broadcasting revenue all increased the commercial awareness of English football clubs (2000:24). Despite this there remained significant differences between the EPL and North American sports clubs including the home club retaining all matchday revenue, which favoured those clubs with the largest stadia (2000:26). He also observed that although aggregate revenue generated by the EPL had increased, a large proportion was retained by just a few clubs increasing further disparities in resources (2000:22).

He explained that English clubs had strong links to their local communities whilst franchises in North America might move between cities to take advantage of subsidies and other financial incentives offered by local government (2000:17). Gratton also noted a key difference in broadcasting agreements. Whilst NFL matches were shown on free television channels, EPL matches were shown on BSkyB and other subscription channels, which didn't necessarily maximise exposure for clubs (2000:26). He concluded that only a European league would allow the full Americanisation of football in Europe (2000:27).

Using published financial data Andreff and Staudohar (2000) showed that until the mid-1980s the professional sports model prevalent in Europe was based on Spectators-Subsidies-Sponsors-Local (SSSL). This meant the primary source of funds for professional

football clubs was matchday receipts. Television and merchandising were less important, with many leagues fearing that broadcasting live matches would adversely impact on matchday receipts (2000:259).

The emergence of new sources of revenue during the late 1980s (especially from broadcasting) led to a decline in the importance of matchday receipts (2000:263). By the early 1990s many football clubs were being managed by professional administrators who were able to access new sources of funds including capital from stock markets (2000:265). Whilst advances in technology and growth in cable and satellite broadcasters ended the monopolies enjoyed by state broadcasters and increased competition to show live football matches (2000:265). Television also raised the global profiles of leading clubs which helped generate further revenue through the sale of club related merchandise. This led Andreff and Staudohar to suggest European football clubs had shifted away from SSSL towards the Media-Corporations-Merchandising-Markets-Global (MCMMG) model (2000:266).

Although this was similar to the model followed by North American professional sports clubs, there remained significant differences. In North America the draft system, absence of relegation, and player salary caps (2000:267) provided owners with a greater opportunity to generate profit. This led them to conclude that in North America owners were profit seekers, in contrast despite increased commercialism owners of European clubs remained win seekers (2000:268).

Zoccali (2012) agreed that although European football clubs had moved to the MCMMG model (2012:83), playing success remained their primary focus. This meant all clubs would over invest in players, with those in the lower half of a division seeking to maximise their chances of avoiding relegation; whilst those clubs near the top of a division would aim to maximise their chances of qualifying for European competition (2012:84). This behaviour was apparent from growth in players' wages since the 1990s (2012:84). Clubs that continued to make losses would need regular injections of cash from investors to ensure shareholders' equity covered cumulative losses (2012:84).

To avoid insolvencies the Italian Football Federation (FIGC) introduced a licensing system for professional football clubs. This required clubs to achieve stated financial objectives that were measured by three accounting ratios (2012:88). These were equity to total assets

(which indicated a club's reliance on debt), revenue to debt, and value of production to financial debt (both of which measured by how many times debt was covered by revenue) (2012:88)

Using financial statements for a five-year period, Zoccali applied these ratios to eight Italian football clubs that became insolvent and compared his results with eight that were financially stable over the same period (2012:89). His analysis demonstrated that only equity to total assets clearly distinguished between insolvent and financially stable clubs (2012:91).

When considering Zoccali's results it should be noted that his analysis was based on a small sample of clubs. In addition the FIGC's definitions of revenue and total assets were affected by the value of players' registrations. Baroncelli and Lago (2006:19) and Zoccali (2012:96) observed that several Italian clubs had previously overstated this figure, which would have impacted on these ratios.

Using published accounting information Solberg and Haugen (2010) agreed that North American sports clubs operated as profit maximisers, whilst European clubs were win maximisers. This meant European clubs competed more aggressively to sign the best players than their North American counterparts (2010:331). Following the Bosman ruling Solberg and Haugen suggested clubs were forced to offer players longer contracts to prevent them leaving for no transfer fee. This placed additional pressures on clubs, since players that did not perform became a financial burden (2010:33). They also explained that the advent of wealthy owners determined to buy success at any price had reduced cost discipline (2010:340); though this would only become a problem if an owner suddenly left or lost interest in their club.

Solberg and Haugen conceded that implementation of a salary cap was not feasible unless introduced simultaneously across European football leagues. The movement of clubs between divisions further complicated this issue since a club relegated from a higher division might immediately exceed the salary cap prevalent in the lower division, resulting in the forced sale of players at less than market value (2010:339).

They concluded that salaries and bonuses that rewarded players based on results would be a step in the right direction as this would pass the risk of poor performance onto players (2010:340). Such a move would not be possible without the support of the largest clubs in Europe. Since these are win maximisers there is currently little incentive for Europe's wealthiest clubs to favour anything that might erode their position.

Vrooman (2007) also believed that owners of European football clubs were win maximisers (2007:316). Using accounting ratios and published financial statements for the period 1996-2005, Vrooman showed that revenue was flowing to the largest clubs. In England five clubs were responsible for almost 50% of aggregate revenue generated by the EPL. A similar situation had occurred in the top divisions in France and Germany; whilst in Italy and Spain the five largest clubs were responsible for almost two thirds of revenue generated by the top division (2007:327). This meant a few clubs were starting to dominate and these leagues were becoming less competitive (2007:315). Several of the dominant clubs also competed regularly in the UEFA Champions League and additional revenue from this further exacerbated disparity (2007:316).

Based on his analysis Vrooman suggested that a wages / revenue ratio of 50-55% was 'safe'; 60-65% was 'risky'; and anything above 75% would ultimately result in insolvency (2007:327). His research suggested that clubs fighting relegation or seeking to qualify for the UEFA Champions League were most likely to have wages / revenue ratios of 60-65% (2007:333), though to ensure success the most extreme win maximisers would spend their entire revenue on wages (2007:325). Vrooman concluded that the largest clubs had outgrown their domestic leagues and the only way forward was an elite European league comprised of 30 clubs (2007:344). Although wages / revenue is an important ratio that is widely used to indicate how effectively clubs control their largest single cost, Vrooman did not provide sufficient detail on how he arrived at his thresholds.

2.2.2 The objectives of clubs whose shares were publicly quoted

During the mid-1990s several English football clubs raised funds through issuing shares on the London Stock Exchange. Szymanski and Hall (2003) investigated whether clubs became more profit focused following floatation. Utilising published financial information for the five years immediately before and after floatation, Szymanski and Hall analysed four

performance indicators for 16 English football clubs. The performance indicators used were pre-tax profit, league position, expenditure on wages relative to league average, and revenue relative to league average (2003:7).

Although results were inconclusive, Szymanski and Hall believed their research had at least challenged the view that EPL clubs were utility maximisers (2003:18). These claims can be called into question on both the grounds of their small sample size and narrow choice of performance indicators. In addition their analysis assumed that investors in football clubs were profit seekers. Zuber et al (2005) and others established that most shareholders in football clubs were supporters more interested in playing success than return on investment.

Using financial data and end of season league tables during the period 1994-2004, Garcia-del-Barrio and Szymanski (2009) constructed an econometric model to investigate whether clubs in the English and Spanish leagues operated as win maximisers or profit maximisers. Their model allowed them to compare the actual league positions of clubs in the top two professional leagues in Spain and England with those positions in which each club would maximise profit or wins.

To make clubs more financially aware, in 1992 government legislation forced all but four Spanish clubs to operate as limited companies (2009:49), and by the early 1990s most clubs in the EPL were limited companies with some listed on the London Stock Exchange. In theory limited companies should focus on generating a return for investors, despite this Garcia-del-Barrio and Szymanski found that clubs in their sample continued to operate as win maximisers. They also found evidence that those clubs threatened with relegation or seeking to break into the top six in their leagues often spent more than they could afford on purchasing new players (2009:59), a risky strategy if it failed.

Based on their findings Garcia-del-Barrio and Szymanski suggested that many shareholders were willing to forego financial reward in favour of playing success (2009:64). They concluded that any club that followed a profit maximisation strategy would not invest enough money in players and was likely to be relegated, which would in turn result in the loss of future profits (2009:65).

Following huge overseas investment, Garcia-del-Barrio and Szymanski speculated whether profit maximisers might eventually replace win maximisers in the EPL (2009:65). However this is unlikely since if clubs in the EPL operated as profit maximisers it would in the long run damage their ability to remain competitive in the UEFA Champions League, which would in turn adversely impact on broadcasting and commercial revenue.

In a study of clubs whose shares were quoted on the London Stock Exchange between August 1997 and July 2000, Zuber et al (2005) investigated whether the behaviour of shareholders was affected by the outcome of matches and other information related to their investments (2005:307). Changes in the price and volume of shares traded in 10 clubs in the EPL were compared with five non-football companies of a similar size randomly selected from the London Stock Exchange (2007:311), and movements in the NYSE (2007:310).

They explained that in most sectors share price was affected by announcements that impacted on the ability of a company to generate future cash flows (2005:305). Since the cash flows generated by a football club were affected by playing success, the outcome of matches should impact on both share price and number of shares traded (2005:306). Furthermore the threat of relegation and competition for a place in the UEFA Champions League ensured the EPL remained competitive throughout the season, which meant share prices and the number of shares traded should change regularly (2005:307).

Zuber et al observed that in terms of trading, investors in football clubs were much less active than those in other sectors (2005:313); and the outcome of matches and announcements that related to potential future cash flows had little impact on share price (2005:312). They concluded that investors were more interested in owning shares in a football club than financial return (2005:313). Although their study was based on a small sample of companies the conclusions reached by Zuber et al were consistent with other researchers and reinforced the belief that most investors in football clubs were supporters more interested in sporting performance than financial return.

Although primarily examining corporate governance in the football sector, Farquhar et al (2005) acknowledged that owners of European football clubs preferred to focus on winning rather than profit and drew attention to several factors that impacted on the financial

performance of clubs in the EPL. Empirical studies suggested those clubs that spent most heavily on players usually enjoyed playing success. This in turn would generate more revenue. Farquhar et al believed this might result in owners of smaller clubs spending heavily on new players in order to achieve playing success (2005:340). Whilst this was not a problem when a club was owned and managed by the same person, it became of more concern when the club was a public company in which directors were responsible for generating a satisfactory return for investors (2005:341). However like Kesenne (2000) this analogy ignored that shares in football clubs were often acquired by supporters more concerned with playing success than financial return.

Farquhar et al also explained that the opportunity to earn high revenues had led to overspending by those clubs striving to win promotion to and avoid relegation from the EPL (2005:343). In addition those clubs that regularly competed in UEFA competitions generated additional revenue which increased disparities between clubs in the EPL (2005:344). Other than increasing the role of corporate governance the authors offered little to suggest how these problems might be overcome.

2.2.3 Reasons for investing in European sports clubs

Zimbalist (2003) argued that owners of professional sports clubs often had a diverse portfolio of business interests and used their sports clubs 'As a vehicle for promoting the owner's other investments' (2003:509). In this way he suggested that what might appear to be utility maximisation of a sports club was instead profit maximisation of the owner's entire business portfolio (2003:509).

He explained that owners did not just seek financial returns and a variety of factors including political influence, power, fun, ego, tax advantages, winning trophies, the acquisition of star players, and in the long-term the opportunity to make capital gains through the disposal of their clubs all represented some form of return on investment (2003:507). Many of these returns were long-term in nature and not easy to show in an income statement (2003:508).

Since supporter groups were often critical of high ticket prices Zimbalist suggested it was in the interest of clubs to report financial losses; explaining it was more difficult to chastise a loss-making club for exploiting loyal supporters (2003:509). He concluded that if owners

were seeking to maximise global long-term returns from their entire portfolio of businesses, this would not be apparent in the profits reported by their sports clubs (2003:510). Although Zimbalist raised some interesting points his analysis focused primarily on the North American market and as we have already seen (Gratton 2000) this was very different to the situation prevalent in European football.

Hamil et al (2010), Franck (2013), Millward (2013) and Madden (2014) concurred with Zimbalist and suggested a number of reasons why wealthy owners were willing to provide financial support for their clubs. These included the publicity associated with owning a club which would raise the profiles of individuals and their other business interests (Franck 2013:18, Millward 2013:402, Madden 2014:5); public acceptance and prestige (Franck 2013:19, Madden 2014:5); the pleasure derived from watching their club compete in the highest league (Madden 2014:5); winning votes in political elections (Hamil et al 2010:376, Madden 2014:5); and in some cases the opportunity for money laundering (Franck 2013:19).

Hamil et al (2010) referred to Italy where Silvio Berlusconi had used ownership of AC Milan to support his political career, becoming Prime Minister on three separate occasions after he acquired the club in 1986 (2010:376). Although AC Milan made heavy losses during this period, Hamil et al suggested Berlusconi saw the club as a 'trophy asset' that greatly enhanced his image and each year he provided the cash necessary to meet club debts (2010:376).

Millward (2013) explained that the formation of the EPL had allowed English football to be 'repackaged' (2013:399) and globalised (2013:400) which resulted in growth in revenue. Although it was players that appeared to benefit most, and despite several clubs reporting losses and negative equity, Millward argued that owners saw a financial return through capital gains on the sale of dual class shares that didn't give new shareholders much involvement in decision making (2013:412). He also suggested there was an opportunity to make capital gains through buying an underperforming club in a lower division and selling once promoted to the EPL (2013:409). Though Millward acknowledged this might initially require significant investment (2013:409).

King (1997) suggested that 'New directors' saw investment in a football club as an opportunity to generate a return in the long run through 'Exploiting the fans' monetary

potential' (1997:231). To do this clubs had to attract families and appeal to more affluent groups (1997:234). However King's analysis didn't envisage the 'arms race' which has resulted in considerable growth in players' costs.

	Revenue (a)	Operating Profit / (Loss) (b)	Wages as a % of revenue (c)
	€m	€m	
England (Premier League)	2,917	121	70%
France (Ligue 1)	1,136	(67)	74%
Germany (Bundesliga)	1,872	190	51%
Italy (Serie A)	1,570	(160)	75%
Spain (La Liga)	1,765	n/a	60%

Table 2.1: The financial performance of Europe's largest five football leagues 2011-12
(Source: (a) Deloitte 2013:15 (b) Deloitte 2013:23 (c) Deloitte 2013:21)

Based on the preceding analysis of literature we can see that European clubs continued to operate as win maximisers which meant sporting success was preferred to financial success. This behaviour helped explain why despite growth in revenue, clubs playing in Europe's top leagues were unable to report healthy profits. Table 2.1 demonstrates that this problem was prevalent in each of Europe's largest leagues and during 2011-12 only the EPL and German Bundesliga generated an operating profit. However with an operating profit of just 4% (€121m/€2,917m), or €4 for every €100 of revenue generated, few clubs in the EPL could offer a satisfactory return to investors. As we shall discover these aggregate figures hide substantial differences in the financial performance of clubs playing in the EPL.

2.2.4 The need for increased financial regulation of European club football

Worried about losses and growing levels of debt, regulatory bodies across Europe including UEFA and the EPL began to introduce tougher financial regulation. Although stakeholders were primarily concerned with playing success, increased regulation meant this had to be achieved within financial constraints.

Paradoxically Lago et al (2006) believed that financial problems in European football were the result of growth in revenue (2006:7). Using published financial information they explained that pursuit of increased revenues encouraged several clubs outside the EPL to spend heavily on players' costs to win promotion, whilst clubs in the EPL spent heavily in pursuit of qualification for the UEFA Champions League or to avoid relegation. Unless clubs

achieved their goal or were funded by a wealthy owner, this would ultimately result in severe financial problems (2006:8).

Lago et al noted that tighter regulation of football in France and the ownership structure in Germany made it more difficult for clubs to spend beyond their means (2006:8). English clubs were less regulated by football authorities and usually structured as limited companies in which shareholders left day to day management to a board of directors. It was argued that by not reining in the actions of directors, shareholders were allowing them to gamble on future playing success (2006:9).

From 2004-05 UEFA had introduced financial criteria necessary for clubs to compete in the Champions and Europa Leagues, and these were extended further during 2006-07 (2006:10). Despite this Lago et al concluded that tighter financial regulation was necessary and clubs that failed to comply should be prevented from earning promotion to a higher division and excluded from playing in UEFA competitions (2006:10). They also suggested that European football could adopt North American practices such as salary caps, the drafting system, limited promotion and relegation, and increased revenue sharing (2006:11). However it is unlikely that the largest clubs would want to adopt North American practices or share revenues with smaller clubs, and few European clubs would favour an end to promotion and relegation.

Buraimo et al (2006) believed wage inflation was the primary cause of financial problems prevalent in English football. They observed that expenditure on wages by EPL clubs had increased from around 45% of aggregate revenue in 1994-95, to over 60% by 2002-03 (2006:38). They suggested that too many clubs were reliant on the support of a wealthy owner (2006:34); and questioned the use of 'securitisation' where future revenues from broadcasting and the sale of season tickets were used as security against loans, referring to problems experienced by Leicester City and Leeds United in using this method of funding (2006:34).

Buraimo et al believed that UEFA's proposals for greater financial regulation were difficult to implement and suggested a more straightforward control would be a wages / revenue ratio of not more than 70% (2006:44). They didn't explain how they arrived at this figure which

was significantly higher than the 60% ratio recommended by accountants Deloitte in Hamil and Walters (2010:360).

2.2.5 'Sugar Daddies' and soft budget constraints

Despite relatively strict rules, Andreff (2007) was very critical of the financial management of football clubs in France. Through the analysis of 60 sets of published financial statements Andreff showed that several French clubs were reliant on the sale of players to reduce losses or break-even (2007:653). He blamed this on a soft budget constraint made available by non-profit seeking investors who were primarily interested in sporting success (2007:657). This meant when a club got into financial difficulties, shareholders were often prepared to provide further investment which weakened financial discipline and in effect gave directors permission to continue to overspend (2007:656).

Evidence from other researchers showed this was not uncommon in European football. Lago et al (2006) noted that local governments in Spain, Portugal, Greece and Belgium had often provided funding and other support for clubs that were experiencing financial difficulties (2006:8). Hamil and Walters (2010) showed that in England HM Revenue and Customs was often compelled to re-schedule or write off tax owing from clubs forced into administration because of overspending. They explained that no state body would want to be associated with the forced liquidation of a football club, and this meant clubs were in effect subsidised through public funds (2010:361).

In carrying out his analysis Andreff encountered some problems obtaining financial information and observed that rather than publish financial statements on time, loss-making clubs were often happy to pay a fine for late submission (2007:660). He concluded that French football authorities needed to monitor clubs more thoroughly and suggested financial management would be improved through the introduction of a salary cap and recommended targets for deficit / revenue, and asset / debt ratios (2007:661).

Although Andreff was very critical of French football, several authors including Lago et al (2006) believed it was better regulated than other major European leagues. Greater explanation of his methodology and the problems encountered in gathering data would have enhanced his analysis. He also needed to more clearly explain his rationale for selecting the ratios that could be used to assess financial performance. As we saw from

Zoccali's (2012) analysis of regulation in Italian football, the choice of ratios is crucial in identifying a potential insolvency event. Whilst the implementation of a salary cap in French football would address the issue of clubs spending too much on players' wages, it would make it difficult for clubs to attract the best players. This could ultimately result in French clubs being less competitive in UEFA competitions.

Using published financial data from clubs in Europe's five largest leagues, Storm (2012) acknowledged that regular pre-tax losses, excessive wages and rising levels of debt were primarily due to the win maximising objective pursued by European clubs. He blamed soft budget constraints for allowing clubs to operate in this way (2012:23) arguing that with no incentive to operate within financial constraints, clubs would spend excessive amounts in pursuit of playing success. Furthermore those clubs that operated within financial constraints were in effect penalised for doing so (2012:27). Storm advocated stronger financial regulation and favoured the introduction of FFP (2012:32). However financial regulation will only be successful if regulatory bodies are willing to impose severe penalties for non-compliance.

Building on the work of Storm (2012), Storm and Nielsen (2012) examined why many European football clubs remained in operation despite consistently making losses (2012:183). They pointed out that although many European football clubs were permanently on the brink of bankruptcy (2012:185) few disappeared altogether, and this was primarily due to the intervention of stakeholders that provided a soft budget constraint. They highlighted several examples where clubs had received financial support from key stakeholder groups including use of the 'decreto salva calcio' by the Italian government (2012:194); authorities in England writing off tax arrears (2012:191); and local authorities in Spain cancelling debt and providing subsidies and stadia for clubs (2012:194). These offered little incentive for clubs to operate within their financial means.

Pursuit of utility maximisation meant European clubs were involved in a 'sporting arms race' (2012:192) in which promotion and relegation, disparities in revenue, and the desire to participate in UEFA competitions all provided incentives for clubs to overspend. Although winning generated increased revenue, the sporting arms race meant this was usually spent on players' costs (2012:191). Storm and Nielsen concluded that FFP would be difficult to

enforce and the task would be made harder by new and creative types of soft budget constraint like Manchester City's £400 million sponsorship agreement with Etihad (2012:197).

Franck (2013) suggested that clubs were instead involved in a 'Zombie race' (2013:9), 'Where an entire league operates on the verge of insolvency, chronically spending more than its earnings, but being…rescued by external money injections year after year' (2013:25). Franck explained that soft budget constraints encouraged inefficiency (2013:21) and high player salaries (2013:22) whilst reducing innovation since clubs knew financial assistance would be available each year (2013:24).

Franck observed that the Spanish government and tax authorities had on several occasions provided financial support for football clubs (2013:13). He suggested this encouraged gambling on playing success since clubs were '"Insured" against failure by the state' (2013:16). In support of this he referred to Atletico Madrid which despite owing €155 million in unpaid tax spent €40 million on one player (2013:13). Wealthy private owners or 'sugar daddies' also encouraged a soft budget constraint mentality (2013:17).

Although some observers were concerned that FFP would reduce external investment in clubs (2013:4) and hence 'Freeze the hierarchy of European football' (Franck 2013:5), Franck explained that regulation would reduce reliance on sugar daddies (2013:6) and encourage innovative management which would result in new revenue streams (2013:5). He also explained that under FFP wealthy owners could invest in infrastructure and youth academies which would be beneficial in the long-term and help address the 'Zombie race' (2013:27). Although an interesting analysis Franck could have been a little more critical of FFP.

Williams (2012) was critical of securitisation and the leveraged buyouts used to acquire Manchester United and Liverpool which loaded 'Huge debt on previously debt free clubs' (2012:27). However he questioned whether UEFA would be prepared to exclude the best supported clubs from European competition for non-compliance with FFP (2012:28).

Despite the introduction of FFP, Van Rompuy (2012) reported that Spain's secretary of state for sport had suggested his government write off around €1.35 billion owed in tax and social

security by clubs in Spain's top two divisions (2012:2). High unemployment in Spain meant this was not well received; and German newspaper 'Bild' questioned 'How long the German taxpayer would be obliged to subsidise the wages of Lionel Messi (€2.5 million per month) and Cristiano Ronaldo (over €1 million per month)' (Van Rompoy 2012:2). In April 2012 the Spanish government agreed that tax owing would be repaid over five years starting in 2014-15, when clubs would be required to set aside 35% of broadcasting revenue towards clearing outstanding tax liabilities (2012:3). Failure to comply could be punished by a points deduction or the forced sale of players (2012:3).

Van Rompuy suggested this might be seen as a form of state aid that went against the principles of FFP (2012:2). He explained that past leniencies by the Spanish government gave clubs little incentive to prioritise the payment of tax (2012:4) and provided further evidence of a soft budget constraint. Since Spanish clubs sold broadcasting rights on an individual basis, there were large disparities in revenue earned by Real Madrid and Barcelona when compared with smaller clubs. This led Van Rompuy to question whether 35% of broadcasting revenue would clear the tax liabilities of all clubs (2012:3).

Franck and Lang (2012) explained that poor financial performance was partly due to the existence of 'sugar daddies' who provided funds that allowed clubs to regularly overspend (2012:3). Sugar daddies might be in the form of wealthy individuals (2012:3), or local and central government using public funds to support clubs in financial difficulty (2012:3). Franck and Lang examined the impact of private and public bailouts on European football clubs and considered whether FFP was desirable.

They explained that clubs funded by a sugar daddy were more likely to choose a riskier investment strategy since any overspend would be covered by their backer (2012:3). This encouraged excessive spending in pursuit of sporting success (2012:5) which might encourage other clubs to overspend, resulting in industry-wide financial problems (2012:6).

Whilst revenue from matchday and broadcasting was fairly stable and predictable over a number of years, they argued that injections of cash from a benefactor were more volatile and would disappear altogether if that benefactor experienced financial difficulties (2012:6). They also suggested the support of sugar daddies might result in competitive imbalance which could eventually reduce interest in matches (2012:6). They concluded that although

FFP might address the issue of overspending, it was unlikely to improve the competitive balance of European football (2012:18).

Although Franck and Lang suggested that clubs with sugar daddies followed riskier strategies, their analysis used a one club model (2012:18). To fully explore the impact of a sugar daddy on the industry the authors recognised that the construction of a more sophisticated multi-club model was necessary (2012:19).

Using published accounting information Frick and Prinz (2006) examined the financial positions of clubs in Germany's Bundesliga. They explained that German clubs were required to submit budgets and other financial information in order to obtain the annual license required to remain in professional leagues. This ensured tighter control of costs and meant the wages / revenue ratio for German clubs was significantly lower than in other European football leagues (2006:64). With debt much lower than in England, Italy or Spain, Frick and Prinz concluded that because of tight financial regulation German football was in a relatively healthy position (2006:72).

However published financial statements for 2004 indicated that due to heavy spending on transfer fees and wages, Borussia Dortmund and Schalke 04 had combined liabilities of €231 million (2006:68). Despite this both clubs were successful in obtaining licenses for the 2005-06 season (2006:68), which suggested regulations were not being enforced as strictly as Frick and Prinz had indicated.

Dietl and Franck (2007) also challenged the views of Frick and Prinz (2006) suggesting that financial regulations governing German football clubs were not enforced with sufficient rigor. Dietl and Franck observed that although between 1999-2005, aggregate revenue generated by Germany's 36 professional clubs increased from €818 million to €1.5 billion, total debt grew from €350 million to €717 million (2007:663). The authors explained that whilst 17 of these clubs were limited companies (2007:665), the remainder were not for profit organisations run by a committee made up of members (supporters) (2007:664). In not for profit organisations liability for debt was not the personal responsibility of members; and the distribution of profit to members was not allowed. This meant there were no incentives for these clubs to generate a surplus and instead fans sought to maximise playing success which encouraged reckless spending (2007:664). Even those clubs that operated as

limited companies were in effect controlled by supporters, with members holding 50% plus one vote (2007:665).

They also suggested that data used by Frick and Prinz was questionable (2007:668) and based on their own analysis of Germany's licensing system Dietl and Franck found that many clubs filed poor quality financial information that was altered through 'window dressing' (2007:667). They concluded that club members were willing to gamble financially to achieve playing success (2007:668).

Whilst Dietl and Franck were very critical of the German licensing system they limited examples of poor financial management to Schalke 04 and Borussia Dortmund, the two clubs heavily criticised by Frick and Prinz. Better use of examples especially those that provided evidence of window dressing of financial statements would have greatly enhanced the arguments put forward by Dietl and Franck. Despite its licensing system, in 2008-09 eleven of the 18 clubs in the German Bundesliga generated an operating profit, which was not dissimilar to the EPL in which 50% of clubs reported an operating profit (Deloitte 2010:20).

Using aggregated published accounting information covering the period 1999-2010 Drut and Raballand (2010, 2012) examined the likely impact of FFP on Europe's five largest leagues. Their analysis showed that despite poor financial performance and large amounts of debt, clubs from the Spanish, English and Italian leagues had acquired the best players and paid the highest wages (2010:2) resulting in competitive imbalance in the UEFA Champions League. These clubs were often supported by wealthy individuals or local government (2010:12) and benefited from less regulation in their domestic leagues. They contrasted this with France and Germany where leagues exerted greater financial control over clubs, though this was at the expense of competitiveness in European competitions (2010:12).

Drut and Raballand suggested FFP would help improve competitive balance within European football, since those clubs backed by wealthy owners would no longer be able to spend more than they earned on players' costs (2010:24; 2012:85). However they questioned whether non-compliance would see the largest clubs excluded from competitions (2010:22; 2012:84). They explained that any decision would need to be confirmed by the European Court of Justice (2010:22), added to which was the risk the largest clubs might create their

own break away competition. Given the high revenues generated by the Champions League this was something UEFA couldn't allow to happen (2010:22; 2012:85).

Although an interesting analysis of FFP, Drut and Raballand did not address in sufficient detail the criticism that FFP might reduce competitiveness in European club football. Wilson et al (2013) argued the requirement to break-even might actually increase the gap in financial resources between the largest six clubs and the rest of the EPL (2013:34). This was because wealthy benefactors were no longer able to spend excessive amounts acquiring the players required to compete with those clubs already established at the top of European football.

Morrow (2013) explained that utility maximisation meant clubs were guilty of 'economic irrationality' since 'In pursuit of sporting success clubs compete against each other, adopting similar strategies in terms of player recruitment and retention' (2013:300). He also suggested that an 'arms race' meant many clubs lived beyond their means (2013:300).

He explained that FFP required clubs to 'Adopt a more economically rational approach to their activities' (2013:303), and distinguished between 'good' debt, which might provide long-term benefits in the form investment in infrastructure, and 'bad' debt which was short-term in nature and included expenditure on the acquisition of players (2013:304).

Geey (2011) explained FFP was an attempt to ensure that in the long-term clubs operated within their financial constraints (2011:para 2). Although wealthy owners were restricted in the amounts they could invest in transfer fees and wages, the rules did allow investment in infrastructure with amounts spent on this excluded from break-even calculations (2011: para 2). Geey also pointed out that FFP did not prevent clubs borrowing large amounts of money as long as annual profits were sufficient to cover interest payable on this (2011:para 7).

Geey suggested FFP might bring to an end high transfer fees since the resulting amortisation and wages would make it very difficult for a club to achieve break-even without a corresponding rise in revenue or the sale of players (2011:para 13). He also explained that clubs excluded from UEFA competition might challenge FFP through the legal system (2011:para 28). Although UEFA had been involved in lengthy negotiations with the

European Commission to minimise the likelihood of this happening, the outcome of any challenge remained uncertain (2011:para 47).

Since only those clubs that wished to compete in UEFA competition were required to comply, Geey suggested FFP might distort domestic competition (2011:para 57). This situation would not arise if domestic leagues also adopted FFP. He concluded that FFP would encourage organic growth rather than short-term expenditure on players' costs (2011:para 58).

2.2.6 'Financial doping'

Several researchers referred to the soft budget constraint provided by wealthy owners as 'financial doping' and compared this with drug taking by athletes to gain an unfair advantage over their rivals. Schubert and Könecke (2015) explained that financial doping was where clubs received externally provided funds that did not originate from operating activities (2015:70). This included the provision of equity injections and soft loans from wealthy owners, indirect support by local authorities (2015:70), owing money to rival clubs, and non-payment of tax and players' salaries (Olsson 2011:28). Schubert and Könecke feared the provision of excessive amounts of external funds provided clubs with an unfair advantage that distorted competition and might ultimately damage sporting integrity (2015:73).

They also believed these funds encouraged clubs to focus on short-term playing success and might be less sustainable than normal operating revenues, which could lead to financial problems in the long-term (2015:72). They suggested FFP should be seen as 'A long-term term football governance project' (2015:78) that sought to address financial doping. To be effective required that penalties for non-compliance were transparent (2015:79).

Müller et al (2012) argued that the actions of loss-making clubs increased costs for all clubs (2012:122) and threatened the 'Long-term financial stability as well as going concern of even prestigious clubs' (2012:118). The interdependent relationship meant the insolvency of one club would impact on other clubs in a number of ways including being unable to complete fixtures which would damage the league's integrity (2012:121); and being unable to pay amounts owed to other clubs in respect of transfer fees (2012:122).

Although Müller et al acknowledged that FFP was necessary to address financial doping (2012:136), they were critical that several factors softened the break-even requirement. These included acceptable deviations from break-even (2012:131), excluding infrastructure costs from calculations (2012:130), and a three-year monitoring period which allowed surpluses to be offset against losses (2012:132). They suggested there was opportunity for creative accounting by clubs and to prevent this, strong penalties needed to be imposed for breaches of FFP (2012:136).

Schubert (2014) used agency theory to examine the need for FFP. He explained that UEFA was the principal since it operated club competitions (Champions and Europa Leagues) and clubs were agents (2014:340). In recent years losses made in pursuit of playing success meant several clubs were increasingly dependent on cash injections from investors (2014:340). The introduction of FFP encouraged clubs to focus on the long-term and compliance was required if clubs wanted to earn revenue through participation in UEFA competitions (2014:340). However excluding clubs for non-compliance was likely to damage the quality of these competitions (2014:342).

He suggested that UEFA should make clear why it didn't want limited companies controlled by private investors to 'Take entrepreneurial risk' (2014:343). This required that clubs and supporters were better educated on the potential problems caused by financial doping (2014:344). Schubert recognised this might be difficult since many supporters welcomed investment in playing success that was funded by sugar daddies (2014:345).

2.2.7 Criticisms of FFP

Madden (2014) was critical that FFP limited the amounts wealthy owners could inject into their clubs commenting, 'It seems strange that an industry should be imposing regulation that disbars the provision of willingly supplied funds by investors' (2014:2). He argued that investment from wealthy benefactors was no different to sponsorship revenue (2014:9) which was as likely to reduce or end as injections from a sugar daddy (2014:10). However this argument ignored that for most clubs' sponsorship revenue was a relatively small amount the removal of which was unlikely to cause severe financial distress.

Budzinski (2014) was also critical that FFP prevented wealthy owners from investing in players arguing this penalised smaller clubs. He contended that FFP allowed those clubs

that currently enjoyed high revenues to spend more than clubs with smaller revenues (2014:6). This would provide these clubs with a competitive advantage for several years, even though a smaller club might have a benefactor who was willing to invest heavily in new players (2014:6). He reasoned this 'Points to an anticompetitive exclusion of entrepreneurial risk' (2014:6), and prevented clubs funded by wealthy owners growing in the same way as Chelsea or Paris Saint-Germain (PSG) (2014:6).

Although Budzinski acknowledged that FFP was an attempt to prevent 'Irrational, irresponsible and unsustainable (over-) spending' (2014:8), he explained excessive spending was not a problem if losses were covered by wealthy investors (2014:9). Referring to Spanish football he argued that situations where authorities had supported clubs using public funds did not justify the introduction of FFP. This was instead a failure of government regulations which was very different to financial support offered by wealthy owners (2014:14).

However these criticisms ignored that FFP allows wealthy benefactors to invest in infrastructure, and there is an acceptable deviation of up to €30m (previously €45m) if this is matched by a corresponding injection of equity. In addition this argument overlooked that the soft budget constraints enjoyed by some clubs often placed upward pressure on players' costs for all clubs.

Vöpel (2011) and Geey (2011) both commented it could prove difficult and time consuming for UEFA to establish relevant revenues and expenses, and this might allow wealthy benefactors to continue to support their clubs. However this could be overcome by greater transparency. Given the importance of the break-even calculation, Morrow (2014) questioned why FFP doesn't require clubs to provide in audited financial statements a reconciliation of reported profit with the figure used for break-even purposes (2014:60). The same question could be asked of the EPL for adjusted earnings before tax and reported profit before tax.

Using a sample of 109 clubs operating in the top divisions in 15 European countries, Dimitropoulos et al (2016) looked at financial statements covering the period 2008-14 (2016:466) to investigate whether FFPR had impacted on accounting quality (2016:460). Their sample was broken down into pre (2008-10) and post-FFP (2011-14) (2016:466).

Dimitropoulos et al argued that clubs with financial problems might employ techniques to boost earnings thereby ensuring compliance with FFP (2016:464). This might include not reporting all impairment losses on players' registrations (2016:469). It was explained that unlisted companies were subject to less regulation and this might assist manipulation of earnings (2016:472). They also suggested clubs might switch audit firm to ensure more favourable auditors' reports (2016:464), including employing smaller audit firms (2016:465).

Their findings showed that in 2011, 24% of their sample changed from 'big 4' to non-big 4 firms of auditors (2016:473). In addition cash flows improved significantly for all clubs in their sample (2016:473). They concluded that accounting quality was reduced following the introduction of FFPR (2016:477), and suggested greater corporate governance was necessary (2016:480).

However it could be argued that it is good practice for companies to change auditors every few years. This ensures auditors retain their independence and don't develop a close relationship with the directors whose stewardship they are reporting on. Whilst compliance with FFP should improve financial performance including improved cash flows. Dimitropoulos et al's findings would have been enhanced by examining changes in performance by country.

2.2.8 Key drivers that influence the performance of football clubs

Previous studied identified that the primary objectives of professional football clubs related to sporting success and financial performance (Sloane 1971, Kesenne 2000, Storm 2011, Risaliti and Verona 2012), and these were influenced by several key drivers. The most important driver of sporting success was investment in players' costs (Arnold 1991, Szymanski and Smith 1997, Hall et al 2002), with those clubs that enjoyed most sporting success spending the largest amounts on transfer fees and wages. However investment in players' costs was up-front and might lead to financial difficulties where sporting success was not achieved.

Owner objectives had a significant influence on the financial and sporting performance of clubs (Zimbalist 2003, Hamil et al 2010, Franck 2013). During the period under review several clubs in the EPL were acquired by wealthy foreign owners who provided a soft budget constraint enabling significant investment in pursuit of sporting success. Such

investment was uncontrolled by regulation, which was in contrast to French or German football where there had historically been tighter regulation (Frick and Prinz 2006, Lago et al 2006, Drut and Raballand 2010). As a result several clubs reported large losses over a number of seasons. Heavy expenditure by clubs supported by wealthy owners meant other clubs in the EPL were forced to spend increasing amounts on players' costs just to remain competitive (Storm and Nielsen 2012, Morrow 2013). Financial and sporting performance was adversely affected where an owner lost interest or did not have the funds necessary to sustain investment in a club (Franck and Lang 2012).

Sporting success is a key driver of revenue. The most successful clubs play more matches leading to an increased share of broadcasting, higher matchday takings, more lucrative commercial contracts, and participation in European competition (Andreff and Staudohar 2000, Baros and Leach 2006, Silva and Filipe 2013, Plumley et al 2017). Since 1992 clubs in the EPL have benefited from collective negotiation for the sale of broadcasting rights, and this requires clubs to work with the EPL and media organisations in order to develop an attractive product (Neale 1964, Storm 2010). Significant growth in broadcasting revenue and the equitable way this was distributed provided clubs with the funds necessary to attract high quality players from overseas, which further increased global interest in matches.

For the most successful clubs regular participation in the UEFA Champions League provided significant additional revenue and increased brand awareness, creating further opportunities for commercial revenue (Farquhar et al 2005, Peeters and Szymanski 2014, Schubert 2014). Although the largest clubs aspired to participate in the Champions League, changes in the way UEFA distributed prize money meant participation in the Europa League also became more lucrative. In 2017 Manchester United received €45 million for winning the Europa League (Deloitte 2018b:10).

Merit payments that linked 25% of domestic broadcasting revenue to final league position (Premier League 2015c), the threat of relegation, rising disparities in revenue, and the desire to participate in UEFA competitions all provided financial incentives for clubs to overspend (Farquhar et al 2005, Storm and Nielsen 2012). For some clubs sporting success was remaining in the EPL. This meant the threat of relegation was a key driver of financial

performance and explained why despite growth in revenue several clubs reported large losses and became increasingly reliant on debt (Farquhar et al 2005, Lago et al 2006, Storm 2011, Zoccali 2012). Servicing high levels of hard debt can restrict expenditure on players' costs and bring clubs into conflict with supporters. At the opposite end of the spectrum high profits and cash surpluses can also lead to criticism from supporters, more interested in sporting success than financial performance.

Dell'Osso and Szymanski (1991) explained that a club's history and reputation could attract supporters and help generate revenue (1991:113), though in the long run this could not be sustained without sporting success (1991:129). Sass (2016) concurred and called this the 'glory hunter phenomenon' where historical playing success attracted more spectators which increased a club's 'revenue potential or market size' (2016:155). Dell'Osso and Szymanski also pointed out that sporting success was influenced by the performance of players (1991:129) and the quality of coaching staff (1991:125). Storm (2010) commented that the use of up to date methods was important to ensure players were properly prepared for matches (2010:103). Luck (including injuries to players) also impacted on sporting success.

Increased financial regulation means clubs must ensure costs are more closely aligned to revenue and this limits provision of a soft budget constraint from owners. However several researchers have criticised FFP, stating that it negatively impacts competitive balance, since acceptable deviations from break-even limit investment and protect the elite of European club football in the short to medium term (Madden 2014, Budzinski 2014).

2.2.9 Salary Cost Management Protocol

Although the introduction of FFP received huge publicity, clubs playing in League 2 of the English Football League (EFL) had been subject to a Salary Cost Management Protocol (SCMP) since 2004-05 (Deloitte 2013:46). This restricted player related expenditure initially to 60% (Deloitte 2009:47), and more recently to 55% of relevant turnover and 100% of Football Fortune Income (FFI) (EFL Appendix 5:Part 4.1). Relevant turnover included matchday receipts, broadcasting revenue, commercial revenue, and where applicable parachute payments received by clubs relegated from the EPL (EFL Appendix 5:Appendix A1). FFI comprised prize monies from cup competitions, net cash receipts in respect of

transfer fees, non-returnable donations, accumulated profit, and cash injections by way of non-redeemable equity (EFL Appendix 5:Appendix A2). Player related expenditure included gross salaries, bonuses, benefits in kind and signing on fees (EFL Appendix 5:Appendix B).

From 2011-12 League 1 clubs were also subject to a SCMP (Deloitte 2012:40). Player related expenditure was initially restricted to 75% (Geey 2012) of relevant turnover before reducing to 65% in 2012-13 and 60% from 2013-14 (Deloitte 2012:40); and 100% of FFI (EFL Appendix 5:Part 3.1). For clubs relegated from the Championship, player related expenditure was restricted to 75% of relevant turnover and 100% of FFI for the first season in League 1 (EFL Appendix 5:Part 2.12).

Penalties for non-compliance with the SCMP included a transfer embargo and the EFL refusing to register new contracts with a club's existing players (EFL Appendix 5:Part 10.1.3).

2.2.10 Financial Fair Play Rules

Morrow (2014) explained that at the start of the 2004-5 season UEFA introduced licensing for all clubs that wished to play in the Champions and Europa Leagues (2014:15). This was based on the licensing system used in German football and required clubs to show they were 'Capable of satisfying their sporting and financial commitments during the season' (2014:15). UEFA introduced FFP from 2013-14 and the objectives are shown in table 2.2.

UEFA Club Licensing and Financial Fair Play Regulations (Edition 2015)
Article 2 – Objectives (Extract)

Some materials have been removed due to 3rd party copyright. The unabridged version can be viewed in Lancester Library - Coventry University.

Table 2.2: The objectives of UEFA Club Licensing and Financial Fair Play Regulations (Extract)
(Source: UEFA 2015:2)

This requires that clubs submit their most recent audited financial statements to UEFA together with accompanying notes, accounting policies, and a financial review by senior

management (UEFA 2012:25, UEFA 2015:27). In addition at 31 March before the next licensing period commences, clubs must demonstrate they have no amounts owing to other football clubs (2015:28), employees (2015:30) or tax authorities (2015:30) that relate to the period before 31 December of the previous year.

UEFA (2015) explained that when calculating break-even, financial performance was considered over a three-year period (known as a monitoring period) (2015:37). This meant for example that the monitoring period for the 2015-16 season considered financial statements for accounting periods ended in 2013, 2014 and 2015 (2015:37). The only exception to this was 2013-14 when financial results for just the two previous accounting periods were used. This meant that although FFP was introduced at the start of the 2013-14 season, reference was made to financial statements for accounting periods ended 2012 and 2013 (UEFA 2012:35).

UEFA (2012) elucidated that break-even was achieved where a club reported a surplus in each year; an aggregate surplus over three years; or an aggregate deficit over three years that was within the acceptable deviation (2012:38). Acceptable deviations and monitoring periods assessed are summarised in table 2.3, and we can see that in 2013-14 the acceptable deviation was €5 million. However cumulative losses during 2011-12 and 2012-13 could be as high as €45 million provided any excess over €5 million was funded by a corresponding injection of equity. This reduced to €30m from 2015-16 (Table 2.3).

Although UEFA (2012) suggested acceptable deviations would be lowered for periods after 2018-19 (UEFA 2012:36), UEFA (2015) maintained these at €5 million and €30 million (2015:38).

Year	Acceptable deviation	Acceptable deviation where excess above €5 mil is covered by equity contribution	Monitoring periods assessed
	€ million	**€ million**	
2013-14	5	45	2012, 2013
2014-15	5	45	2012, 2013, 2014
2015-16	5	30	2013, 2014, 2015
2016-17	5	30	2014, 2015, 2016
2017-18	5	30	2015, 2016, 2017

Table 2.3: Summary of Financial Fair Play acceptable deviation
(Source: Summarised from UEFA 2012:36)

UEFA (2012) also explained that for 2013-14 and 2014-15 only, sanctions would not apply for losses above €45 million where both of the following conditions were fulfilled:

- A club reported declining cumulative losses, which demonstrated it was working towards compliance (2012:87).
- Losses were the result of contracts agreed with players before 1 June 2010 (2012:87).

The inclusion of acceptable deviations 'Allows clubs to pass the FFP break-even test without actually breaking-even' (Field Fisher BDO 2014:4), and recognised that given the scale of losses reported by many clubs it was not be feasible to immediately enforce break-even (Geey 2011:para 8).

UEFA (2015) explained that a club would be in breach of FFP if:

- It failed to meet the break-even requirement (2015:39).
- Financial statements showed worsening negative equity (2015:39).
- The most recent auditors' report included 'An emphasis of matter or qualified opinion…in respect of going concern' (2015:39).

In addition UEFA can require additional information from a club where employee costs are greater than 70% of revenue or net debt is greater than revenue (2015:39).

Franck and Lang (2012) observed that in 2009 the balance sheets of 37% of the 733 clubs playing in Europe's top leagues had negative equity, the situation where total liabilities exceed total assets (2012:2). By requiring an equity injection for losses above €5 million, FFP was trying to ensure this didn't worsen.

In calculating break-even clubs compare relevant income and expenses; this differs to reported profit as some amounts are excluded from break-even calculations. A summary of relevant income and expenses is shown in table 2.4. It should be noted that relevant income specifically excludes amounts arising from the re-valuation of non-current assets and income from related parties at above fair value (2012:75).

To encourage expenditure on long-term infrastructure, relevant expenses excluded:

- Expenditure on youth and community development activities, as long as these costs could be clearly identified (2012:73).
- Finance costs directly attributable to the construction or modification of tangible non-current assets (2012:73).
- Depreciation and impairment of tangible non-current assets and amortisation and impairment of intangible non-current assets, except for players' registrations (2015:88).

FFPR are constantly evolving and in 2015 expenditure on women's football was also excluded from relevant expenses (2015:85).

Relevant income	Relevant expenses
• Gate receipts including from friendly matches and tours • Sponsorship and advertising • Broadcasting • Commercial activities • UEFA solidarity and prize money • Other operating income, including subsidies, rent, dividends and income from non-football operations • Profit on disposal of players' registrations • Profit arising from the disposal of non-current assets that are not being replaced (though profits arising from the disposal of stadium or training facilities are excluded) • Finance income	• Cost of sales including catering and merchandise costs • Employee costs • Other operating expenses • Amortisation and impairment of player registrations • Losses arising from the disposal of player registrations • Finance costs • Dividends paid to equity shareholders • Upward adjustments to expense transactions with related parties, where these were originally at less than fair value

Table 2.4: Summary of FFP relevant income and expenses
(Source: Relevant income summarised from UEFA 2012:72-76; Relevant expenses summarised from UEFA 2012:72-78)

2.2.11 Penalties for non-compliance

Compliance with FFP is monitored by The UEFA Club Financial Control Body (CFCB), which is made up of an investigatory chamber and an adjudicatory chamber (UEFA 2015:34). The investigatory chamber reviews documentation and other relevant information from clubs and can dismiss the case; 'Offer clubs settlement agreements…to help facilitate compliance' (UEFA.com 2015:11); with a club's agreement can impose a fine of up to €100,000; or refer the case to the adjudicatory chamber (UEFA 2017). Settlement agreements indicate the

actions required by a club within a specified timescale in order to ensure compliance with FFPR together with any penalties imposed (UEFA.com 2015:11). Where cases are referred to the adjudicatory chamber, it can impose penalties for non-compliance including warnings, fines, deduction of points, withholding of revenues from UEFA competitions, disqualification from current or future competitions, and ultimately withdrawal of a title (UEFA.com 2015).

In February 2014 UEFA announced that 76 clubs were being assessed for non-compliance (Conway 2014a), including Manchester City whose aggregate losses of £149 million in 2012 and 2013 greatly exceeded the acceptable deviation (Conway 2014). Following a review of additional financial information nine clubs were penalised through settlement agreements with Manchester City and PSG receiving the most severe penalties (Dima 2015:439). For Manchester City penalties included (UEFA 2017:Manchester City):

- The maximum acceptable deviation was reduced to €20 million for the accounting year ended 2014 and €10 million in 2015.
- Employee costs for the accounting year ended 2015 were to be the same as in 2014. This would continue into 2016 if the acceptable deviations above were exceeded.
- The club was restricted to using just 21 players in Champions League matches during 2014-15. This would continue into 2015-16 if the acceptable deviations above were exceeded.
- Expenditure on players' registrations was significantly restricted during the transfer windows for 2014-15 and 2015-16.
- Revenue earned from playing in UEFA competitions during 2013-14 and 2014-15 would be reduced by €20 million (rising to €60 million for non-compliance with the settlement agreement).

The settlement agreement also mentioned that 'Certain commercial partnerships were subject to examination. In order to avoid dispute and for the avoidance of doubt, Manchester City has agreed that for the period of the settlement it will not seek to improve the financial terms of two…commercial partnerships' (UEFA 2017:Manchester City). This suggested that UEFA had investigated sponsorship arrangements between Etihad and Manchester City.

Up to June 2017 the CFCB had made 28 settlement agreements (including Hull City and Manchester City from the EPL) and 26 adjudicatory chamber decisions (UEFA 2017). In 2015 FC Dynamo Moscow became the first club to be excluded from UEFA club competition for breach of break-even rules after reporting an aggregate deficit of €302 million in the three seasons to 2014 (UEFA 2017). In 2016 Galatasaray was excluded from UEFA club competition for two seasons having failed to comply with a settlement agreement decided in 2014 (UEFA 2017). Investigation showed between 2013-15 Galatasaray exceeded the acceptable deviation by €134 million (UEFA 2017).

2.2.12 EPL and EFL financial regulation

Clubs playing in the English Football League Championship adopted FFP from the start of the 2011-12 season (EFL Appendix 5:Part 1.1), with an acceptable deviation of up to £4 million (EFL Appendix 5: Part 5.2). However cumulative losses in 2011-12 could be as high as £12 million so long as these were accompanied by an injection of equity for the amount above the acceptable deviation (EFL Appendix 5:Part 5.3). Penalties for non-compliance were not introduced until December 2014 (EFL Appendix 5:Part 6).

Since FFP applied only to those clubs that wanted to play in UEFA competitions, in February 2013 the EPL also introduced greater financial regulation (Premier League 2013a). This required all clubs to:

- Submit to the EPL by 1 March each year their most recent audited financial statements and directors' report together with interim financial statements covering the six-month period from the accounting year end (Premier League 2015:104).
- Provide evidence that no overdue amounts were owed to employees or other clubs (for transfer fees) (2015:105).
- Provide forecast financial statements covering the next season (2015:105).
- Show that liabilities owed to HMRC for PAYE and NIC did not exceed 28 days (2015:105).

Initially EPL regulations focused on Short Term Cost Control (2015:107) which looked at situations where wages exceeded £52 million in 2013-14; £56 million in 2014-15; and £60 million in 2015-16 (2015:107). In each year clubs were required to restrict increases in wages to £4 million. Where wages increased by more than £4 million this must have been

caused by contracts entered into before 31 January 2013, or funded by increases in a club's non-central revenue (2015:78) and profits arising from player trading (2015:107). In this way STCC limited increases in wages without corresponding growth in commercial or matchday revenue, or surpluses from player trading.

From 2015-16 EPL financial regulations were expanded to cover 'Profitability and Sustainability' (2015:113). This meant aggregate losses in excess of £15 million over a three-year period (2015:114) must be matched by a corresponding injection of equity (2015:87). Where cumulative losses exceeded £105 million, a club was considered in breach of EPL financial regulations (2015:114) which could lead to a range of sanctions including the EPL:

- Requiring clubs to agree to a budget (2015:107)
- Requesting the provision of additional financial information (2015:107)
- Refusing to register new players or new contracts for existing players (2015:115)
- Imposing fines (2015:206)

For EPL monitoring purposes clubs were required to adjust the reported profit (loss) before tax to ensure that amounts arising from related party transactions were stated at fair market value (2015:114), and to remove:

- Depreciation and impairment of non-current assets (2015:236)
- Amortisation and impairment of intangible non-current assets (except for that relating to players' registrations) (2015:236)
- Expenditure on youth and community development (2015:236). In this way EPL regulations also encourage investment in long-term infrastructure.

The EPL refers to this as 'Adjusted Earnings Before Tax' (2015:113). The biggest difference with FFP is the allowable deviation of £105 million over three years compared with just €30 million allowed by UEFA.

2.2.13 Summary of section 2.2

From the preceding review of literature it is apparent that European football clubs operated as utility or win maximisers. However pursuit of this objective together with the soft budget constraint provided by owners and other stakeholders reduced cost discipline and resulted

in many clubs experiencing severe financial difficulties. To encourage clubs to operate within financial constraints UEFA and the EPL introduced stronger financial rules.

2.3 The financial reporting system

This thesis will make use of financial statements and it is necessary to be aware of the accounting principles, rules and regulations that underpin the preparation of high quality financial reporting information. The purchase of players' registrations has a significant impact on both the assets and expenses of a football club and this section will also examine the accounting treatment of intangible assets (which includes players' registrations).

2.3.1 Generally Accepted Accounting Principles

Hines (1989) explained the financial accounting paradigm is based on a number of assumptions (1989:52) that are 'So taken for granted, and considered to be common-sense, that everybody "knows" them' (1989:53). Leung (2016) concurred and explained that the paradigm had 'Gained universal acceptance throughout the accounting community as valid procedures' (2016:12). Assumptions and practices were 'Upheld through academic and professional training' (2016:12), where students were taught about the International Accounting Standards Board (IASB) framework, International Financial Reporting Standards (IFRSs), best practice recommended by professional accounting bodies, and the production of financial statements that show a true and fair view (2016:12). Hendriksen (1977) suggested that 'The most important goal of accounting theory should be to provide a coherent set of logical principles that form the general frame of reference for the evaluation and development of sound accounting practices' (Hendriksen 1977 in Alexander et al 2017:84).

The preparation of financial statements in developed countries is based on Generally Accepted Accounting Principles (GAAP) (Maynard 2017:61). GAAP is the standardised framework of accounting guidelines that determines how entities record transactions and events to produce financial statements (Hussey and Ong 2017:7). It is comprised of government legislation (including the Companies Act 2006), accounting standards, stock exchange regulations (that apply to any company with shares listed on a stock exchange) (Hussey and Ong 2017:8), and 'Generally accepted conventions and rules followed in the preparation of financial statements' (Maynard 2017:61).

Accounting standards provide detailed rules and procedures on the treatment of transactions and other items shown in financial statements (Hussey and Ong 2017:10). Their main purpose is to bring consistency to the treatment and disclosure of transactions, reducing the potential for variations in accounting practice. In the UK accounting standards are issued by the Financial Reporting Council (FRC) and the IASB (Melville 2015:5). Prior to the issue of accounting standards it had been hoped that judgements made by accountants would result in uniformity in the production of financial statements (Elliott and Elliott 2013:208). However two cases during the 1960s highlighted the inconsistencies this sometimes caused. In GEC's takeover of AEI Ltd in 1967 the values of stock and work in progress provided by two firms of accountants differed by £9.5 million (Maynard 2017:62). Similarly in 1968 an independent investigation by Price Waterhouse suggested profit of £2 million reported in the audited financial statements of Pergamon Press Ltd should be reduced by £1.5 million (Elliott and Elliott 2013:209). This led to the formation of the Accounting Standards Steering Committee which issued accounting standards in the UK from 1971 until 1990, when it was replaced by the FRC (Maynard 2017:63).

Although the issue of national accounting standards improved the quality of financial reporting there remained difficulties making comparison with entities in other countries. For example in 1993 Daimler Benz reported a profit of DM615 million using German GAAP; using US GAAP showed a loss of DM1839 million (Hussey and Ong 2017:10). This led to the formation of the IASB which brought about convergence of international accounting practices in the preparation and presentation of financial statements (Cotter 2012:35, Nobes and Parker 2012:82).

The financial reporting system is underpinned by a conceptual framework consisting of a set of agreed fundamental principles, concepts and good practice that provides a theoretical framework for the development of accounting standards (Hussey and Ong 2017:32, Melville 2015:17, Alexander et al 2017:67). This helps ensure accounting standards are coherent and based on consistent principles and rationale (Elliott and Elliott 2013:236, Maynard 2017:73). Over time accounting must evolve to deal with new transactions or changing opinions, and the conceptual framework assists in dealing with topics yet to form the subject of a standard (Alexander et al 2017:68).

The IASB published its conceptual 'Framework for the Preparation and Presentation of Financial Statements' in 1989 (Nobes and Parker 2012:133). An updated 'framework' was published in 2010 and identifies the objectives of financial reporting; elements of financial statements, how these are measured and criteria for recognition; and provides requirements for presentation and disclosure in financial statements (Cotter 2012:8). It also sets out two fundamental qualitative characteristics that make financial information useful to users, relevance and faithful representation (Alexander et al 2017:70). Faithful representation means financial information is neutral, complete, and free from error (Cotter 2012:13). Relevance means financial information 'Is capable of making a difference in the decisions made by users' (Elliott and Elliott 2013:241). In addition the characteristics of comparability, consistency, verifiability, timeliness and understandability enhance the usefulness of financial information that is relevant and faithfully represented (Alexander et al 2017:71). International Accounting Standard (IAS) 1 Presentation of Financial Statements provides guidance on the structure and content of financial statements and contains several of the general principles from the conceptual framework (Melville 2015:38).

The Companies Act 2006 requires that financial statements show a 'true and fair view' and are prepared in accordance with accounting standards (McKenzie 2010:4). Although the Companies Act 2006 does not define 'true and fair', legal opinion has stated that financial statements prepared in compliance with accounting standards will show a 'true and fair' view (Elliott and Elliott 2013:52, Maynard 2017:60). However accounting is based on judgements and estimates, and this means 'true and fair' should be 'within acceptable limits', and judgements and estimates must be 'professional, informed and reasonable' (Maynard 2017:60).

2.3.2 Accounting for the purchase of players' registrations

Along with its stadium a football club's largest asset is usually ownership of players' registrations. Yang and Sonmez (2005) argued that players provided a unique resource that helped attract sponsors, supporters and broadcasters (2005:41) and enabled a club to gain a competitive advantage over rivals. An examination of published financial statements in 2015 showed the aggregate carrying value of players' registrations for EPL clubs amounted to £1.6 billion and amortisation and impairment of this resulted in an expense of £657 million (calculated from aggregated financial statements of clubs in the EPL 2015).

The IASB defined an asset as 'A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity' (Melville 2014:24). To provide more detailed guidance on the treatment of intangible assets the IASB issued IAS 38 Intangible assets in September 1998 (Deloitte IASPlus) in which it defined an intangible asset as an 'Identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes' (Cañibano et al 2000:105, Stolowy et al 2001:149). Examples of intangible assets include computer software, brands, capitalised development costs, and intellectual property (Austin 2007:64). For football clubs the amount paid to acquire a player's registration is treated as an intangible asset. IAS 38 distinguishes between intangible assets that are purchased and those that are internally generated, and it is the treatment of internally generated intangibles that has caused most debate.

2.3.3 The treatment of purchased intangible assets

Høegh-Krohn and Knivsflå (2000) and Powell (2003) explained that IAS 38 allowed an intangible asset to be capitalised provided there was a reliable measure of its cost and it was probable that future economic benefits would arise from its use (Høegh-Krohn and Knivsflå 2000:249, Powell 2003:798). For IAS 38 acquiring an intangible asset in an arm's length transaction provided a reliable measure of its cost (Høegh-Krohn and Knivsflå 2000:245, Powell 2003:798).

IAS 38 required that once capitalised, purchased intangible assets were amortised over their useful lives (Powell 2003:802). In this way the cost of using an intangible asset was matched against revenue (and other economic benefits) arising from its use.

2.3.4 The treatment of internally generated intangible assets

Cañibano et al (2000) explained the main criticism of IAS 38 related to its treatment of internally generated intangible assets which were usually written off as expenses in the income statement (2000:110). Stolowy et al (2001) pointed out that internally generated development costs could only be capitalised if they met specific criteria detailed in IAS 38. Criteria included the ability to reliably measure the costs incurred in producing an asset, and that economic benefits were expected to arise from its future use (2001:155). This meant many items that provided an organisation with a competitive advantage could not be capitalised. These included for example the cost savings resulting from the development of

an efficient supply chain (Lev 2003:17), the costs of training employees (Austin 2007:67), and costs incurred developing players through a youth academy at a football club.

Lev (2003) explained that the value of intangibles could be very volatile (2003:18). Using data from Standard and Poor's 500 companies in the USA Lev noted that in March 2000 the ratio of market value to net assets was 7.5:1 (2003:17), which reflected the future earnings potential of internally generated intangible assets (2003:17). However by August 2002 the ratio had fallen to 4.2, indicating the volatility of market values (2003:17) and clearly demonstrating why IAS 38 was so prudent in its treatment of internally generated intangibles.

Austin (2007) explained that unlike purchased intangible assets which had identifiable costs and benefits (2007:63), internally generated intangibles were usually developed by an organisation over a period of time. Due to uncertainty about the future economic benefits that might arise from their use, expenditure on these assets was usually written off to the income statement as incurred (2007:64). Referring specifically to expenditure on staff training Austin explained that the value of any benefits arising was too difficult to ascertain which prevented capitalisation of these costs (2007:67). Although Austin's analysis focused on New Zealand he clearly explained the requirements of IAS 38 though didn't suggest how perceived limitations could be overcome.

Powell (2003) also explained that recognising internally generated intangible assets was 'Difficult because when the costs are incurred in developing these assets, any future economic benefits to the entity are uncertain' (2003:800). Powell suggested a number of ways in which the accounting treatment of intangibles could be improved including that companies be allowed to reinstate previously expensed costs associated with an internally generated intangible once benefits were probable (2003:807). However this would require companies to re-state figures for prior accounting periods, which is time consuming, expensive and sometimes confusing to users of financial statements.

Based on a review of literature Cañibano et al (2000) argued that the treatment of internally generated intangibles meant several key value drivers were excluded from an organisation's financial statements (2000:119). They suggested that the probability of future economic benefits should be taken into consideration when deciding whether to capitalise internally

generated intangibles (2000:121). So for example if the probability of future benefits was greater than 50%, costs would be capitalised rather than written off as expenses. However the concern in using this approach is that companies might be less prudent which would result in both asset values and profit being overstated.

Høegh-Krohn and Knivsflå (2000) recognised that IAS 38 made it difficult for companies to use internally generated intangibles to inflate reported profits and asset values (2000:258). However they argued that the IASB had been too prudent in their treatment of internally generated intangibles (2000:261). Like Cañibano et al (2000) they too suggested that internally generated intangible assets should be capitalised where it was reasonably certain that future economic benefits would arise (2000:258). However their recommendations were very reliant on how companies defined the term 'reasonably certain' which would to some extent depend on the attitude of directors to risk and might result in profit and asset values being overstated.

Penman (2009) challenged the idea that internally generated intangibles needed to be capitalised (2009:17), arguing that due to their speculative nature it was often difficult to arrive at a fair value for these assets (2009:2). Instead he suggested that the income statement reflected any profits generated from using internally generated intangibles and this was more useful than any valuation shown in the Statement of Financial Position (SFP) (2009:4).

2.3.5 How football clubs accounted for transfer fees (SSAP 22 Goodwill)

Research by accountants Touche Ross (1992) looked at how football clubs in England accounted for the cost of players' registrations. At that time the accounting treatment of intangible assets in the UK was covered by Statement of Standard Accounting Practice (SSAP) 22 Goodwill (Financial Reporting Council 1997). SSAP 22 was issued in December 1984 and allowed companies to either immediately write off goodwill as an expense in the income statement (the expense approach), or capitalise it as an asset and amortise this over its useful life (the capitalisation approach) (Financial Reporting Council 1997).

Using the most recent published financial statements for 46 clubs that played in Division 1 and Division 2 of the EFL, Touche Ross (1992) reported that 40 clubs accounted for transfer fees as an expense (or profit) in the income statement in the year in which the purchase or

disposal occurred (1992:4). Although a simple and prudent way to account for the cost of players' registrations this treatment meant profit was subject to huge fluctuation from year to year. Only Tottenham Hotspur and Portsmouth capitalised players as intangible assets (1992:5). The four remaining clubs in the sample did not clearly state their accounting treatment of players' registrations (1992:4).

Touche Ross (1993) recommended that all clubs should capitalise the costs of acquiring players' registrations and amortise these over the duration of contracts (1993:12). In this way the cost of buying a player was spread over the length of his contract and profits were not subjected to huge fluctuations from year to year. If a player suffered loss of form or serious injury, his valuation could be adjusted to reflect this. They reasoned that by using this method the financial statements of a football club would provide a more accurate reflection of the assets utilised to generate a profit (or loss) (1993:8).

Rowbottom (2002) demonstrated the impact that capitalising players had on the financial statements of several football clubs including Glasgow Celtic which in 1994 increased its net assets by £3.8 million, and Sunderland which increased net assets by £4.3 million (2002:343). To put this into context the average net assets of a club in the EPL in 1993 was £3.7 million (Touche Ross 1994:25).

The issue of transfer fees was further complicated by the Bosman ruling in 1995. Morris et al (1996) and Simmons (1997) both suggested that following the Bosman ruling clubs should calculate amortisation assuming a residual value of zero. Prior to this when calculating amortisation clubs had estimated a player's transfer value at the end of his contract (Morris et al 1996:899, Simmons 1997:17).

Morris et al (1996) believed another consequence might be that clubs stopped treating transfer fees as assets and instead accounted for them immediately as costs (or profits) (1996:898). They explained this treatment would result in clubs reporting fewer assets and annual profits being subject to huge fluctuation due to the timing of player transfers (1996:899). This situation was prevented by the issue of Financial Reporting Standard (FRS) 10 Goodwill and Intangible Assets.

2.3.6 FRS 10 Goodwill and intangible assets and IAS 38 Intangible assets

The introduction of FRS 10 in December 1997 (which was subsequently replaced by IAS 38 Intangible Assets in January 2005) (ICAEWa) brought consistency to the accounting treatment of intangible assets and required that companies followed the capitalisation approach. IAS 38 and FRS 10 presumed the price paid for an intangible asset provided reliable evidence about its fair value and meant all football clubs were required to capitalise transfer fees and write these off over the length of a player's contract.

However Amir and Livne (2005) argued that due to several factors including loss of form and injury there was uncertainty as to whether future economic benefits would arise from the purchase of a football player. Given this uncertainty they questioned whether capitalisation was the most appropriate policy (2005:551).

Using financial statements for 58 clubs from the English and Scottish professional leagues covering the period 1990-2003, Amir and Livne studied the relationship between the accounting treatment of players' registrations and share price (2005:557). They found a weak relationship between investment in players and future operating cash flows (supporting their argument that economic benefits were uncertain) (2005:552). Despite this, movements in share prices indicated that investors preferred intangibles to be capitalised rather than treated as an expense (2005:553).

Forker (2005) also questioned whether the accounting treatments outlined in FRS 10 and IAS 38 were appropriate for transfer fees. Forker explained that to be recognised in financial statements the IASB required that future benefits arising from an asset were probable and would flow to the entity (2005:587). Like Amir and Livne, Forker believed that some assets were highly speculative making it difficult to say with certainty that future economic benefits were probable. As a consequence Forker believed that IAS 38 might result in the capitalisation of some intangibles that did not strictly meet the definition of an asset (2005:588).

Using published accounting data covering the period 1991-98, Forker's findings concurred with those of Amir and Livne (2005) and suggested that investors associated spending on players with future playing success. He concluded that this supported the capitalisation approach required by IAS 38 and FRS 10 (2005:596). However he also observed that the

financial benefits arising from the acquisition of a player might not last for the duration of his contract (2005:597). It was therefore important that clubs looked at the carrying value of players on a regular basis and ensured this was not greater than the recoverable amount (estimated market value) (2005:597).

Writing in Hamil et al (2000) Manning also questioned the capitalisation of players' registrations. Taking the worst-case scenario he reminded us that under Professional Footballers' Association rules if a club was unable to pay wages it was in breach of contract which meant players became free agents and could leave the club for nothing (2000:158). He also suggested where a club was in financial difficulty, the value of its players would fall as it became desperate to raise the cash necessary to remain in business (2000:158).

This last point was clearly demonstrated by both Baroncelli and Lago (2006) and Risaliti and Verona (2012) in their analyses of the poor financial state of Italian club football. Risaliti and Verona blamed this on what they called a 'virtuous circle' in which clubs invested large amounts acquiring players in the hope this would result in playing success and increased revenue from sponsors and broadcasting (2012:9). This was a risky strategy that required significant investment but carried no guarantee of success, and by the early 2000s several clubs were in financial difficulty (2012:1).

Instead of addressing financial problems through better control of costs Risaliti and Verona explained that some clubs covered this up through 'window dressing' which usually took the form of player exchanges between clubs at inflated transfer values (2012:10). As clubs struggled to remain financially viable several were forced to sell players at less than market value which triggered a collapse in transfer prices (2012:12) resulting in large impairment charges.

To prevent insolvencies in December 2003 the Italian government issued the 'decreto salva calcio' which allowed clubs to spread impairment losses over 10 years (Baroncelli and Lago 2006:14). This went against the requirements of both IAS 36 Impairment (which required impairment losses to be written off immediately as an expense) and EU provisions on state aid and financial reporting. Subsequent intervention by the European Commission eventually overturned the decree and forced clubs to write off impairment charges by 31 December 2006 (Risaliti and Verona 2012:12). Although Risaliti and Verona examined

financial statements over a 14-year period they limited their analysis to those Italian clubs that had qualified for the UEFA Champions League at least five times during the period 1996-2009. This provided a sample of just five clubs (2012:2).

Baroncelli and Lago (2006) observed that although Serie A clubs reported aggregate losses of €400 million in 2003-04, without the decreto salva calcio these would have exceeded €1.3 billion (2006:14). To put this into context, in 2003-04 Serie A clubs reported aggregate revenue of €1 billion (Deloitte 2010:11).

Risaliti and Verona (2012) and Baroncelli and Lago (2006) clearly demonstrated the potential problems attached to capitalising transfer fees. Ascari and Gagnepain (2006:86) and Bosca et al (2008:166) expressed similar concerns about Spanish football where they observed that asset values for several clubs in La Liga were over-reliant on players' registrations, the value of which was highly volatile. As a consequence a collapse in the value of players would result in several clubs reporting negative equity.

2.3.7 The accounting treatment of players developed through youth academies

Although Forker (2005) and Amir and Livne (2005) each considered how clubs accounted for players acquired for a transfer fee, neither looked in sufficient detail at the accounting treatment of players developed through a club's youth academy. These are classed as internally generated intangible assets. Since it is not possible to clearly distinguish the cost of developing each individual player from the youth academy's total costs, IAS 38 (and before it FRS 10) does not allow this to be capitalised.

This meant that although Manchester United was able to capitalise the transfer fee of £28.1 million paid for Juan Sebastian Veron in July 2001 (BBC News 2001) (as this represented a reliable monetary value of that player), players that came through the club's youth development system such as David Beckham and Ryan Giggs could not be included as assets. Instead the costs of developing these players were immediately charged as expenses in the club's income statement.

Using the 2002 annual reports of 19 English professional football clubs, Shareef and Davey (2005) looked at problems in accounting for internally generated assets including the development of youth players, brands and image. Although FRS 10 had standardised the accounting treatment of transfer fees Shareef and Davey explained that compliance with

FRS 10 meant 'The balance sheets of clubs which acquire players will look healthier than those depending on home grown players' (Shareef and Davey 2005:86). They also commented that despite merchandising being a major source of revenue for many clubs, brands were not recognised as assets (2005:87) as these were usually internally generated. They concluded that differences between market capitalisation and net assets meant shares in football clubs were trading at large premiums (2005:83). They suggested that a FRS on intellectual capital disclosure in the football sector might be a useful way in which to make financial statements more meaningful to users (2005:102).

Yang and Sonmez (2005) concurred and explained that revenue from the sale of club related merchandise and corporate sponsorship was becoming increasingly significant for clubs in the EPL (2005:41) and was often linked to sporting success and the profile of a club's players, with the largest sponsors wanting to be associated with the most successful clubs.

Although Shareef and Davey touched on several issues, their sample size was very small and focused on just one accounting period. Also in assessing the level of disclosure of intellectual capital the authors used their own disclosure index, and it could be argued the way in which weightings and scores were attached to each variable was a little subjective.

Morrow (2003) explained that following the Bosman ruling and introduction of FRS 10, a player acquired on a free transfer would not appear as an asset in the SFP since no monetary amount was paid to acquire his registration (2003:154). In the long run this could have serious implications since UEFA Club Licensing was considering making it a requirement for all clubs that wished to play in UEFA competitions to report positive net assets (2003:154).

With the introduction of FFP it became increasingly important that a club's financial statements properly reflected the true value of assets. Oprean and Oprisor (2014) considered whether Grojer's (1991) theory could be used to value players acquired on a free transfer. This involved capitalising total wages payable to a player and writing these off over the duration of his contract (2014:6). However Oprean and Oprisor pointed out that since players acquired on free transfers were often able to negotiate higher wages, this might over-value intangible assets (2014:7).

They also considered whether Flamholtz's (1985) theory could be applied to value players developed through an academy. This involved capitalising the costs of running the academy. However this also proved problematic since there was no way of identifying the costs associated with each player. Capitalising the entire cost of the academy represented the cost of developing all players including those who did not sign professional contracts with a club (2014:7) and went against IAS 38. Although an interesting article on the difficulties in accounting for players Oprean and Oprisor didn't arrive at any answers to the problems outlined.

2.3.8 Summary of section 2.3

Compliance with GAAP should produce financial statements that show a true and fair view about an entity's financial performance and position. FRS 10 (and subsequently IAS 38) brought consistency to the accounting treatment of players' registrations and means that after wages, amortisation of players' registrations is usually the largest recurring cost for a football club. The treatment of internally generated intangibles does not allow clubs to capitalise players developed through youth academies.

2.4 The uses and limitations of accounting ratios

2.4.1 What is an accounting ratio?

Melville (2014) defined an accounting ratio as 'A measure of the relationship which exists between two figures shown in a set of financial statements' (2014:354), and explained that ratios allow us to compare performance more easily than through using absolute monetary figures (2014:354). Beaver (1966) suggested that ratios were useful predictors of certain events (including business failure) (1966:72).

Bourgen and Drury (1975:39) and Melville (2014:354) explained that accounting ratios could be used for time series and cross-sectional analysis. Time series analysis uses accounting ratios to compare a company's financial performance over a number of accounting periods (this also known as trend or horizontal analysis (Holmes et al 2009:74)). Cross-sectional analysis involves comparing performance with other companies operating in the same sector or with average figures for that sector (Bourgen and Drury 1975:39).

2.4.2 Using ratios for predictive purposes

In his review of academic literature Horrigan (1968) noted that using accounting ratios to analyse financial statements was a recent development. Although during the late nineteenth century managers and creditors used ratios to analyse an organisation's profitability, it wasn't until the early twentieth century that standards or 'norms' (such as the 2:1 current ratio) started to appear and for the first-time comparison was made with other companies (1968:285).

Horrigan explained that improvements in the quality of financial statements (1968:285); research by the Du Pont Company in 1919 which linked efficiency and profitability ratios (1968:286); and the publication of industry average ratios by Dun and Bradstreet in 1933 (1968:288) all contributed towards the increased use of ratios to analyse and evaluate company performance. During the 1930s and 40s several academic studies examined whether ratios could be used to predict business failure. However results were inconclusive and varied greatly depending on the ratios selected (1968:288), suggesting for the first time that some ratios were more useful than others.

Horrigan concluded that ratios provided a relatively simple and quick method for appraising company performance allowing comparison with previous years or industry averages. In this way they highlighted specific areas where financial performance could be improved which made them useful to both senior managers and external analysts (1968:294).

Although Horrigan focused primarily on research carried out in the USA, used North American terminology (which often differed to UK terminology), and could perhaps have been more critical in evaluating the uses of ratios, he provided a clear summary of early research into ratio analysis and his article is still referred to by academics almost 50 years after it was written.

Horrigan (1965) had previously used the financial statements of 32 steel companies and 24 petrol companies covering the period 1948-57, together with the results of several academic studies from the 1920s onwards to examine the difficulties involved in establishing average or standard ratios for different industries (1965:559).

Focusing primarily on liquidity and Du Pont ratios he identified that it was necessary to calculate only a small number of ratios to analyse a business, so long as these included key

variables from financial statements (1965:561). He also identified that certain ratios could be used to predict both business failure several years in advance, and the likelihood of companies defaulting on the repayment of loans. These included interest cover and net profit to sales, with higher ratios indicating less likelihood a company would fail or default on a loan (1965:567).

Perhaps the most useful part of Horrigan's research was that he identified several factors that might impact on the ratios calculated. These included cyclical conditions and seasonal factors both of which made it more difficult to make meaningful comparison of financial performance over a number of accounting periods (1965:563). He also observed that ratios that included variables which were short-term in nature were more volatile and subject to greater fluctuation than those comprised of variables that were long-term in nature (1965:562). Most notably he recognised that the accounting policies selected by an organisation would have a significant impact on the financial statements produced and ratios calculated (1965:566). Despite these factors he concluded that ratios remained a useful way in which to analyse financial data (1965:568).

Although Horrigan's research focused on manufacturing companies in the USA, the factors that he identified are still important and relevant today. As long as we are aware of these factors, ratio analysis remains a useful technique for analysing the financial performance of business organisations.

Beaver (1966) was one of the first studies to examine whether ratios could be used to predict company failure. Beaver paired 79 companies operating in 38 different industries that had failed during the period 1954-64 (1966:73) with 79 non-failed companies of a similar size and operating in the same industries (1966:74). Through the calculation of 30 ratios (1966:78), the financial performance of companies was analysed for five years prior to their failure (1966:77). To assist analysis the 30 ratios selected were classified into six groups covering cash flow, profitability, debt to total assets, liquid assets to total assets, liquid assets to current liabilities, and asset turnover (1966:78).

Like Horrigan (1965), Beaver concluded that not all ratios were equally useful, and a complete analysis of financial performance could be carried out using just a few carefully selected ratios (1966:101). Whilst cash flow to total debt was the most useful ratio for

classifying failed firms in the year immediately prior to failure (1966:89), Beaver commented that the current ratio and acid test were less useful in predicting failure (1966:91). His analysis found that failed companies had lower cash flow; a smaller amount of liquid assets (1966:80); and in the years before failure experienced slower growth in their asset bases (1966:81). He also observed that companies with worsening ratios found it more difficult to obtain funds from banks and other lenders which further exacerbated their problems (1966:101). Beaver agreed with Horrigan (1965) that ratio analysis could help predict company failure several years before it occurred (1966:91).

Perhaps the biggest difficulty that Beaver encountered was not with ratios but the quality of accounting data (1966:99) and the accounting policies selected which made like for like comparison of companies difficult. In particular he referred to the different ways in which companies accounted for leased assets, which impacted on both profit and capital employed (1966:100).

Although Beaver's study looked at a relatively small sample of mostly manufacturing companies based in the USA, it was a ground-breaking piece of research that clearly showed ratios can be used to predict company failure. One limitation (that Beaver himself acknowledged) is that it was not possible to say how many companies in the non-failed sample were saved because of the predictive ability of ratios (1966:101). Although Beaver concluded that cash flow to total debt was the best predictor of corporate failure, Altman (1968 and 2000) excluded this ratio from his analysis since there was no consistent definition of 'cash flow' (Altman 2000:8). Taffler (1983) questioned Beaver's use of non-failed rather than solvent companies. Taffler explained that a sample of non-failed companies might include some companies that were near to bankruptcy and would fail in the short-term. By clearly identifying a sample of solvent companies Beaver could have instead compared these with his sample of insolvent companies (1983:297).

Building on the work of Horrigan (1965) and Beaver (1966), using a sample of 63 companies whose shares were traded on the Hong Kong Stock Exchange Laurent (1979) calculated 45 ratios for each company together with the mean and standard deviation for his sample (1979:403). He used this to determine those ten ratios that contained most of the

information identified in the full set of ratios (1979:401). In this way analysts could evaluate the financial state of a company using just a few key ratios.

The final ratios selected covered all aspects of the financial profile of a company including profitability, solvency, efficiency and working capital management, and capital structure, and Laurent concluded that using just ten ratios did not result in a significant loss of financial information (1979:405). He explained that if initial analysis identified concern with a particular aspect of performance, further ratios could be calculated focusing on the problem area (1979:412).

This was useful research as it is much easier to calculate and interpret the findings of just a few ratios. However Laurent's research was based on a sample of companies from the Hong Kong Stock Exchange that used different accounting standards to UK companies. In addition his sample excluded those companies that did not have significant levels of inventory which might limit the usefulness of his analysis and its application to service sector organisations.

Gupta and Huefner (1972) demonstrated that ratios could be used to identify basic industry characteristics. Applying six ratios to 20 industries in the manufacturing sector, they were able to identify groups of industries that had similar values of a particular ratio (1972:82). Their results suggested that companies could compare performance against industry averages or adjust to match specific industry average ratios (1972:91). Although an interesting application of ratios Gupta and Huefner's research was based on manufacturing industries in the USA which meant companies with very low inventory levels were excluded.

Falk and Heintz (1975) selected five ratios and using published accounting data for 1970-71 calculated average ratios for 41 different industries in the USA (1975:774). The five ratios covered liquidity (total assets / working capital, average accounts receivable / sales), efficiency (non-current assets / total assets, average total assets / sales), and debt (debt / equity) (1975:764) and were structured so that the higher a ratio, the greater the level of risk indicated (1975:769). Based on ratios calculated Falk and Heintz were able to rank industries in terms of the degree of risk attached to them.

Their analysis produced some interesting results. Higher levels of non-current assets as a proportion of total assets might indicate use of specialist assets. This made it more difficult

for companies to quickly adapt to change thereby increasing the level of risk attached to that industry (1975:764). High debt to equity indicated more cash flow was necessary to service debt which again increased risk and might result in the payment of smaller dividends to shareholders (1975:765).

Falk and Heintz concluded that use of these ratios did enable industries to be ranked in terms of risk, which might be useful for investors (1975:774). They also suggested their analysis could be expanded to cover more industries. However their analysis also demonstrated that care had to be taken when interpreting accounting ratios. Ratios that used figures for assets were affected by whether non-current assets had been re-valued or were held at historic cost (1975:764). In addition asset values and profit were affected by whether companies leased or purchased non-current assets (1975:768). Finally they noted that in some industries compliance with regulation meant companies had no choice other than to operate with a specific figure for certain ratios (1975:768). Although an interesting piece of research the authors based their analysis on the results of just five accounting ratios applied across 41 different industries in the USA.

Whittington (1980) explained that the basic assumption of ratio analysis was proportionality. In other words the technique assumed a linear relationship between two or more variables (1980:219). Building on previous research he identified several potential problems in using ratios to analyse financial performance. These included situations when the relationship between two variables was non-linear, for example where there were increasing or decreasing returns to scale (1980:223). It followed that ratios were valid over only a specific range of variables, so for example to increase sales might require a reduction in a company's profit margin which would be reflected in the ratios calculated (1980:225). Of most concern to Whittington was that the calculation of ratios was based on historic information which meant past performance was used to forecast future performance. In a dynamic, constantly changing business environment what happened in the past was not always relevant in forecasting future performance. For this reason Whittington commented that factors such as high inflation and mergers reduced the effectiveness of ratios (1980:226).

Like Horrigan (1965) and Beaver (1966), Whittington also concluded that ratios were only as good as the accounting information on which they were based. Biased accounting information or errors in financial statements would adversely impact on both the ratios calculated and their usefulness (1980:229). Whittington clearly identified several potential limitations in using ratios and these can be taken into consideration when analysing the ratios calculated.

Lev (1969) examined whether companies adjusted their ratios to match industry averages. Using a sample of 245 companies in the USA and published financial statements covering the period 1947-66, he calculated six ratios representing liquidity, asset turnover, debt and Return On Capital Employed (ROCE) (1969:293).

His research suggested that over time companies adjusted their accounting ratios to meet industry averages (1969:298). Where changes occurred in the industry average Lev observed that companies would consider whether these were the result of a short-term fluctuation (in which case there was no point in a company adjusting its ratios), or a fundamental change that was expected to persist (1969:297). In addition some ratios were based on long-term variables such as sales revenue, equity and debt; these were under less direct control by managers and hence more difficult to adjust in the short-term (1969:296).

Although Lev's study focused on companies based in the USA and was limited to just six key accounting ratios, it remains an important piece of research. However Lev's sample contained only those companies that remained in operation during the 20 years under review and was hence biased. In addition Lev did not consider whether those companies that didn't change in line with industry averages performed better or worse than those that adjusted.

Barnes (1987) also found evidence that companies tried to achieve industry averages (1987:449), and agreed with Laurent (1979) and Horrigan (1965) that the calculation of just a few carefully selected accounting ratios was required to establish a complete understanding of a company's financial performance (1987:456).

Research by Lev (1969), Laurent (1979), and Barnes relied heavily on the current ratio (current assets / current liabilities). Whilst companies that failed often had a current ratio

that was below the industry average, research by Beaver (1966), Altman (1968), Bird and McHugh (1977), Houghton and Woodliff (1987) and others cast doubt on the predictive ability of this ratio. Of more significance is the make-up of an organisation's liquid assets.

Building on research by Lev (1969), Bird and McHugh (1977) focused their study on a random sample of 50 companies from the food, electrical and accommodation sectors, whose shares were quoted on the Sydney Stock Exchange in November 1972. Using published financial data for each company covering the period 1966-71, Bird and McHugh calculated the same five ratios for each year to establish whether companies adjusted towards industry averages (1977:30). The ratios selected by Bird and McHugh covered liquidity (current and quick ratios), gearing, profitability (ROCE) and efficiency (after tax return on assets) (1977:30).

Their results indicated that mean ratios were different for each industry (1977:31) and within each industry companies tried to maintain ratios in line with the industry average (1977:43). They also observed that ratios allowed comparison to be made with a company's closest rivals (1977:43). Although they recognised that operating at the industry average was not necessarily the best position for all companies, Bird and McHugh recommended that further investigation was advisable where there were significant differences between a company's performance and the industry average (1978:43). Bird and McHugh also demonstrated that for all industries the current ratio and acid test were well below the 2:1 and 1:1 levels first suggested by researchers during the early twentieth century (1977:35) and cast further doubt on the usefulness of these two ratios.

Like Whittington (1980), Horrigan (1965) and others they suggested the quality of financial data needed to improve (1977:43) observing that accounting terminology and the format of financial information were not standardised even within each industry, so when calculating ratios it was often difficult to compare like with like.

Although a valuable investigation into the usefulness of ratios, Bird and McHugh only considered companies that remained in business during the whole period under review. Their results would have been enhanced had they also made comparison with companies that became insolvent during this period.

Using financial data from 1975 for 700 companies operating in 45 industries in the UK, Bougen and Drury (1980) calculated the mean and standard deviation of seven accounting ratios for each industry and used this to establish the position of each company relative to these benchmarks (1980:39).

Their results indicated that the current ratio, acid test, inventory turnover and receivables turnover ratios each showed clustering around the mean with some extreme results (1980:46). Gearing is determined by a company's reliance on debt and so the distribution ranged from zero upwards (1980:45). The ROCE and profit margin each had similar distributions which the authors suggested was due to the common variable used in calculating each ratio (profit before interest and tax) (1980:45). Bougen and Drury suggested that instead of indicating financial difficulties, ratios that differed significantly to the industry mean might instead be the result of different strategies being pursued by a company (1980:40). It was therefore desirable for analysts to have a greater understanding of the characteristics of ratio distributions (1980:40). Although a useful piece of research that built on the work of Lev (1969) and focused on UK companies, since their analysis was based on just one year of accounting data it is likely that exceptional or one-off items impacted significantly on their results.

Schmidgall and DeFranco (2004) based their research on a random sample of 500 clubs in the USA including golf, soccer, swimming, shooting and riding clubs (2004:2). Although non-profit making organisations, Schmidgall and DeFranco recognised these must remain financially viable whilst providing an acceptable level of service to members (2004:1). As well as requesting copies of the most recent financial statements, they asked general managers to rank up to ten accounting ratios considered most useful in assessing the financial performance of their organisations. They received 85 responses, 77% of which were from golf or country clubs (2004:4) and on average respondents identified just 5 ratios used on a regular basis, with payroll as a percentage of revenue considered the most important (2004:5).

Using the financial statements provided, Schmidgall and DeFranco calculated the same 16 ratios for each club together with industry mean and median figures. They suggested these could be used to benchmark performance against competitors or industry averages (2004:1)

and concluded that ratio analysis could be an 'Invaluable management tool' (2004:14). Although an interesting study into the use of ratios in the not for profit sector, their findings were based on a relatively small sample and just one year of accounting data which would make it difficult to identify anomalies caused by the occurrence of one-off items.

2.4.3 The quality of financial statements

In establishing the usefulness of ratios several authors including Horrigan (1965), Beaver (1966), Bird and McHugh (1977) and Whittington (1980) expressed concerns about the quality of financial information and how this might impact on ratios calculated. During the last 50 years accounting standards have brought some consistency to the accounting treatment of certain transactions and improved the quality of financial statements. However in recent years we have witnessed the growing importance of intangible assets and with internally generated intangibles excluded from the SFP, many have questioned the usefulness of financial statements. Beaver et al (2005) looked at whether the development of accounting standards and issues concerning the inclusion of intangible assets had impacted on the usefulness of ratios (2005:93).

Using published accounting information from companies listed on the NYSE, Beaver et al examined a sample of bankrupt and non-bankrupt companies during the period 1962-2002. To improve analysis the sample was split into two periods. The first period focused on 1962-93, during which the Financial Accounting Standards Board (FASB) issued over 150 accounting standards in the USA. The second period covered 1994-2002, a time that saw huge growth in the importance of intangibles (2005:94).

Their sample comprised 544 bankrupt firms and 4,237 non-bankrupt firms (2005:97). Beaver et al used just three ratios that measured return on assets, cash flow to liabilities, and debt to equity (2005:98) calculating these for each failed company in the four years prior to bankruptcy. These results were then compared with the average ratios of non-bankrupt companies over the whole period (2005:100).

Beaver et al found that the introduction of accounting standards had enhanced the quality of financial statements which in turn improved the predictive ability of ratios (2005:94). However through breaking down their sample into two periods they could identify that improvements in quality were offset by two factors.

The application of a small number of accounting standards allowed some discretion in the way a transaction could be recorded (2005:94). This meant that one company's application of a standard might differ slightly to another's. They also recognised that during the period 1994-2002 intangible assets had become increasingly important. However as these were often excluded from a company's financial statements, potentially significant variables were omitted from the ratios calculated. Beaver et al suggested that these two factors had offset improvements in the quality of financial statements and resulted in a very slight decline in the predictive ability of ratios during the period 1994-2002 when compared with 1962-93 (2005:110).

Despite this slight decline in the predictive ability of ratios, Beaver et al concluded that the ratios of failed companies did show significant deterioration up to four years before bankruptcy (2005:100). It should be noted this research was based on companies in the USA that used standards issued by the FASB and although Beaver et al observed some discretion in the application of certain accounting standards, they could not be sure whether discretion had increased or was simply being better reported than previously (2005:95).

To improve the quality, transparency and comparability of financial statements, IFRSs were introduced into the EU from 1 January 2005. Prior to this each country in the EU had issued its own accounting standards so the introduction of IFRSs greatly improved the consistency with which transactions were recorded. Using published financial statements for a sample of 91 companies quoted on the Finnish stock exchange Lantto and Sahlström (2009) examined the impact of the adoption of IFRSs on the calculation of eight key accounting ratios (2009:349).

One significant change brought about by IFRSs was that purchased goodwill was no longer amortised over its useful life and this helped explain why profitability ratios increased by up to 19% following the introduction of IFRSs (2009:343). This in turn increased EPS by a similar amount but caused Price-Earnings to fall by around 11% (2009:343). In addition they noted that the use of fair value to calculate some financial instruments increased liabilities and hence gearing by almost 3% (2009:343).

Lantto and Sahlström based their research on companies that had previously used Finnish accounting standards. In the UK, accounting standards issued during the previous decade were closely linked to the requirements of IFRSs. This meant the introduction of IFRSs possibly had less impact on UK companies and hence on ratios calculated. In addition Lantto and Sahlström only used one year of financial information which meant figures for some companies might have been distorted by one-off items and other anomalies.

2.4.4 Summary of section 2.4

The preceding review of literature shows that accounting ratios are a useful tool with which to evaluate the financial performance of an organisation. Although the usefulness of ratios is affected by a number of factors including changes in accounting policies, the issue of new accounting standards and the quality of financial statements, research by Beaver et al (2005), Altman (2000), and Agerwal and Taffler (2007) indicated the technique had remained robust over a number of years. In addition if we are aware of these factors we can take them into consideration in our analysis.

2.5 Analysing the financial state of European club football

In our review of literature on the objectives of sporting clubs and need for increased financial regulation we established that several authors made use of accounting ratios in their research including Arnold (1991), Szymanski and Hall (2003), Andreff (2007), Vrooman (2007) and Zoccali (2012). This section will consider further academic studies that have used ratios and published accounting information to evaluate the financial state of European club football. To assist understanding studies are grouped together by country.

2.5.1 Portugal

Using ratio analysis and published accounting information provided by Deloitte, Barros (2006) examined the financial performance of each club in Portugal's top division during 2002. He explained that in terms of revenue the Portuguese League lagged behind Europe's five largest leagues (2006:97) and as a consequence the sale of players provided an important inflow of cash for all clubs. However, in the long run the sale of its best players might adversely affect both the quality and popularity of Portuguese league football (2006:98).

The pursuit of win maximisation combined with failure to control players' wages meant several clubs made losses (2006:97), and financial assistance from local and central government provided little incentive for clubs to improve this position (2006:100). He concluded that the relationship between clubs and local and national government needed to be more transparent and greater financial regulation by UEFA was necessary. Although Barros clearly summarised financial problems in Portuguese football his analysis was based on just one year of information.

Using annual reports and accounting ratios for the period 2008-12, Silva and Filipe (2013) investigated the financial performance of four leading clubs in Portugal. They used a number of accounting ratios including Return On Equity (ROE), solvency (equity / liabilities) and financial autonomy (equity / assets) (2013:500) to evaluate how clubs could achieve both sporting and financial success (2013:494).

They concluded that to be successful clubs had to focus on a number of principles (2013:496) including control of player costs (2013:496); investment in the development of players who could later be sold for a profit (2013:497); and developing teams that would achieve sporting success on a regular basis (2013:498). The implication being that sporting success enabled clubs to generate higher levels of revenue which could be invested in better players to achieve further sporting success.

Although they raised some interesting points Silva and Filipe's research was based on a sample of just four clubs all of which had achieved sporting success and earned additional revenue through participation in European competitions during the period under review. It would have been useful to also consider clubs that did not achieve sporting success. The authors also needed to more clearly explain the rationale behind their choice of ratios.

2.5.2 Spain

Ascari and Gagnepain (2006) used accounting information provided by the Liga National de Futbol Profesional (LFP) to evaluate the financial performance of Spanish football clubs. The LFP was established during the early 1980s after several clubs had debts cleared by the government (2006:78). To help prevent a recurrence, clubs in Spain's first and second divisions were required to submit budgeted financial statements before the start of each season (2006:78).

Ascari and Gagnepain explained that clubs were usually run by a President elected by supporters. A President's term in office was judged in terms of playing success rather than financial return, and this would often lead to reckless spending (2006:77). In addition an important characteristic of Spanish football was the regional identity of some clubs including Barcelona (Catalonia), Athletic Bilbao (Basque) and Real Madrid (2006:77). These clubs were often backed by regional banks and local authorities (2006:77) which provided a soft budget constraint.

They observed that several clubs were over-reliant on broadcasting revenue (2006:79), however with contracts negotiated on an individual basis the best supported clubs received most revenue resulting in significant disparities (2006:80). They also explained that some broadcasters overestimated the value of football and faced with their own financial difficulties were forced to re-negotiate contracts (2006:80). This further exacerbated financial problems for clubs that had already committed to players' contracts based on revenue expected from their original broadcasting agreements (2006:85).

Between 1998-2003 players' costs increased at a faster rate than revenue, resulting in losses for many clubs (2006:82). High amortisation charges reflected the rise in transfer fees during this period (2006:83) and meant for several clubs' intangibles became the largest asset on the SFP (2006:86). Since no club experienced problems in satisfying the financial requirements of the LFP, Ascari and Gagnepain suggested that because of continued support from local authorities' Spanish clubs had less severe financial problems than clubs in the rest of Europe (2006:87).

The findings of Ascari and Gagnepain were based on budgeted information provided by clubs to the LFP. Bosca et al (2008) observed this was often very different to actual revenue and expenditure reported in published financial statements (2008:166). Their conclusions also conflicted with the findings of Barajas and Rodríguez (2010) who explained that twice in the last 25 years the Spanish government had been required to write off significant amounts owed by clubs (2010:53). High levels of debt and disparities in revenue provided further evidence that severe financial problems existed in Spanish football.

Rather than using LFP figures Bosca et al (2008) based their research on information collected from the annual reports of all clubs that played in La Liga from 1995-2002

(2008:167) and their analysis focused primarily on sources of revenue, control of costs and levels of debt. Boscá et al were very critical of the quality of annual reports explaining these were often published late and contained qualified auditors' reports that questioned both the accuracy and reliability of financial statements (2008:165). Perhaps of most concern were large variations between initial budgets submitted to the LFP and actual figures reported in published financial statements. As a consequence budgets tended to 'Overestimate income and underestimate expenditure' (2008:171). This led them to question the findings of both Ascari and Gagnepain (2006) and Lago et al (2006) which were based on analysis of LFP budgets (2008:166).

In 2002-03 expenditure on players' costs amounted to around 120% of aggregate revenue generated by La Liga (2008:171), and several clubs were forced to raise funds through the disposal of key assets including stadia and training facilities (2008:168). With Real Madrid and Barcelona receiving around 40% of La Liga's aggregate revenue (2008:172), there were significant disparities in the resources available to clubs (2008:173). Unlike Ascari and Gagnepain (2006) Boscá et al concluded that Spanish football had severe financial problems and greater regulation was necessary to resolve this (2008:175).

Using financial statements and accounting ratios for 2007 and 2008, Barajas and Rodríguez (2010) evaluated the financial performance of 19 clubs in La Liga and 16 clubs in the Spanish second division (2010:55). The ratios covered liquidity (current ratio), debt (total debt / total assets, total debt / total revenue, interest cover), profitability (ROCE, ROE) and control of costs (staff costs / revenue) (2010:56). Their analysis showed that 89% of clubs in their sample reported operating losses; 34% had debt in excess of total assets; and 51% of second division clubs were technically insolvent (2010:64).

Barajas and Rodríguez explained that financial crises were not new to Spanish football. In 1985 public authorities had written off debt of €124 million and in 1991 a further €192 million of debt was cancelled, though in return all but four clubs were converted into Sporting Limited Companies (SADs) which resulted in greater financial regulation (2010:53). Despite this Barajas and Rodríguez criticised the quality of financial statements in their sample, observing that just 20% of clubs had a clean audit report. The nature of audit qualifications related to the valuation of players, levels of shareholders' equity, and ability

of clubs to remain in operation (2010:54). They concluded that from a financial perspective Spanish football was in a very perilous state. Although an interesting piece of research, Barajas and Rodríguez considered just two accounting periods which was insufficient to properly identify trends in financial performance.

Using financial and other information covering the period 1994-2005, Barros et al (2008) studied how efficiently clubs controlled costs by breaking down the Spanish first division into segments comprised of clubs with similar financial characteristics (2008:452). Their analysis focused on the two largest costs, wages and amortisation. These were compared with points attained to identify the most cost-efficient clubs in La Liga (2008:457).

Their results indicated that the lowest cost efficiency was shown by two clubs each supported by wealthy owners more interested in playing success than financial return (2008:461). The most cost-efficient club spent just two seasons in La Liga during which it faced tight financial constraints (2008:462). Based on cost structures Barros et al were able to identify different segments of clubs playing in La Liga. They suggested clubs should be aware of which segment they belonged to and choose appropriate cost and business strategies so resources were utilised efficiently (2008:462). In this way clubs were more likely to operate within their financial constraints. Like several previous studies Barros et al criticised the quality of financial information produced by Spanish football clubs.

Using multivariate ratio analysis in the form of Altman's Z-score, Barajas and Rodríguez (2014) analysed the financial performance of Spanish football clubs during the period 2007-11 (2014:5). Their study was based on a sample of 173 annual reports from clubs in Spain's first and second divisions (2014:23). They also used univariate ratio analysis to examine the causes of worsening total debt / total assets, total debt / total revenue, negative working capital, and declining levels of equity (2014:12).

Promotion and relegation encouraged clubs to spend heavily on players in pursuit of win maximisation and meant any club that focused on profit maximisation was likely to be relegated (2014:10). Using Altman's Z-score for non-manufacturing companies showed that in 2011 all but one club in the first division and ten second division clubs were at risk of bankruptcy (2014:5). With several clubs unable to meet short-term liabilities, Barajas and Rodríguez calculated that an injection of aggregate equity was required amounting to

€630m for division 1 clubs and €275m for division 2 clubs (2014:16). Following a review of auditors' reports they concluded that financial problems might actually be worse than those shown in financial statements (2014:17). Although an interesting application of Altman's Z-score (which was not constructed for use with football clubs), Barajas and Rodríguez made no reference to the role of soft debt or support from wealthy owners.

2.5.3 Greece

Using financial information from 17 clubs that played at least one season in the Greek first division between 1994-2004, Panagiotis (2009) examined those factors that contributed towards the poor financial performance of football clubs (2009:162). His analysis made use of accounting ratios that examined profitability, liquidity, efficiency and capital structure, together with other variables that impacted on financial performance including league position and number of wins in a season, each of which affected attendance and hence matchday receipts (2009:163).

Panagiotis observed that profitable clubs had higher levels of cash and were less reliant on debt, which in turn meant they had more resources to invest in improving playing performance (2009:165). He concluded that in the short run the financial performance of clubs was affected by playing success and levels of uncertainty surrounding the outcome of matches, both of which affected attendances (2009:165). Panagiotis (2010) later expanded his study to cover the period 1993-2006 for the same 17 clubs (2010:13).

Government legislation during the late 1970s meant professional football clubs in Greece had to operate as public limited companies (2010:7). However poor financial performance meant few could raise sufficient funds from stock markets which left several reliant on support provided by wealthy individuals, the local community and public authorities (2010:12). Like other European leagues the focus of Greek clubs was primarily on playing success (2010:10), and although they were required to submit budgeted income and expenditure figures to the Professional Athletics Committee before the start of each season (2010:12), Panagiotis questioned how much notice was taken of this, as analysis of published financial statements showed several clubs with negative equity (2010:13).

Poor control of costs and rising levels of debt (2010:16) meant several clubs struggled to remain financially viable (2010:18). He also suggested that disparities in resources would in

the long run adversely impact on the level of competition in Greek football (2010:18). He was critical of both club directors who were willing to gamble on success (2010:20), and the Greek government which had provided financial assistance for several well supported clubs that found themselves in difficulty (2010:20)

Panagiotis concluded that there was a need for improved financial management in Greek football and suggested clubs would benefit through using accounting techniques including ratios to evaluate performance (2010:23), and a balanced scorecard approach to ensure playing and financial performance complemented each other (2010:24). He also recommended the introduction of salary caps and revenue sharing to redress competitive balance (2010:25). These recommendations were very ambitious and larger clubs were unlikely to accept measures to re-distribute wealth.

2.5.4 Italy

Using accounting information from Deloitte and focusing on sources of revenue and control of costs, Baroncelli and Lago (2006) argued that pursuit of playing success meant several clubs in Italy's Serie A had invested heavily in players (2006:20). Without the support of a wealthy benefactor this was a risky strategy and clubs that failed to achieve sporting success were left with huge debts (2006:22). Between 1990-2002 aggregate revenue for Serie A clubs increased by 216%, however wages increased by 453% (2006:14). In 2002-03 wages amounted to 88% of aggregate revenue (2006:19) and several clubs reported losses.

Baroncelli and Lago believed that clubs were too reliant on revenue from television (2006:18), and with broadcasting rights negotiated on an individual basis most revenue went to the largest and best supported clubs. As financial problems worsened several clubs were forced to sell players at less than market value increasing losses further still.

With stadia usually owned by local authorities the authors noted that many clubs already had a low asset base, and this was reduced further through downward pressure on transfer fees which adversely impacted on the carrying value of players' registrations. This made it difficult for clubs to raise new funds through borrowing or issuing shares (2006:16).

The authors were also highly critical of the quality of financial information suggesting that often transfer fees between Italian clubs were not correctly reported, with clubs overstating the value of players to avoid bankruptcy (2006:19). In addition a lack of available funds

meant several clubs had paid players' wages late or 'Under the table to avoid paying taxes on them' (2006:20). The financial situation became so critical that in 2003 the Italian government was forced to intervene and issued the decreto salva calcio (2006:14).

To help control costs the Italian League introduced a rule that prevented clubs spending more than 70% of total revenue on players' wages. However this further increased disparities between the largest and smallest clubs (2006:24). Poor quality financial information and the impact of the decreto salva calcio meant the financial crisis in Italian football may have been even worse than suggested by Baroncelli and Lago.

Boeri and Severgnini (2012) explained losses made by Italian clubs were due to an over reliance on broadcasting revenue that left them exposed to changes in the amounts broadcasters were willing to pay to televise live matches; huge growth in players' wages; the adverse impact of match rigging and betting scandals; and the poor quality of some matches which reduced attendances and hence matchday receipts (2012:1). They also remarked that a high prevalence of counterfeit goods meant clubs in Italy generated much less commercial revenue than those in other major European leagues (2012:7). Soft budget constraints meant many clubs operated as though they were 'Too popular to fail' (2012:11), and the true scale of losses was often hidden by manipulation of profits (2012:4).

2.5.5 England

Using financial statements for 20 EPL clubs during the period 2001-10, Wilson et al (2013) examined the relationship between financial performance, league position and ownership model (2013:19). As well as percentage changes in revenue and profit after tax, Wilson et al calculated five accounting ratios that focused on key aspects of financial performance including profitability, liquidity and debt (2013:26). Clubs were ranked in terms of each performance indicator (2013:26). Each performance indicator was given an equal weighting and an overall score calculated (2013:26). The lower the overall score, the better a club's financial performance (2013:26).

Wilson et al identified three types of ownership in the EPL. The foreign ownership model (2013:23) involved wealthy overseas investors who often operated their club as a loss-making trophy asset (2013:20). The stock market model was popular during the mid to late 1990s when several football clubs were listed on the London Stock Exchange (2013:23). The

third type was the domestic private investor, which was like the foreign ownership model though Wilson et al suggested the UK owner 'Often has an emotional attachment to a particular club' (2013:24).

Their findings 'Indicated that better financial performance is moderately associated with better sporting performance in the EPL' (2013:28). They also pointed out that clubs under foreign ownership often had high debt but enjoyed better playing success (2013:29).

Plumley et al (2017) produced a Performance Assessment Model (PAM) comprised of three sporting and five financial performance indicators and applied this to data for 21 clubs that played in the EPL during 1992-2013 (2017:12). Clubs were ranked in terms of each indicator and an average overall performance score was established for every club, with a lower score indicating better performance (2017:10). Their results were consistent with the findings of Wilson et al (2013) that better financial performance is 'moderately and positively associated with better' sporting performance (2017:16). Their analysis showed large disparity between the best and worst performing clubs, and that several clubs had wide variations in performance during the period (2017:18). Of most concern was that 13 clubs demonstrated neither good sporting nor good financial performance (2017:16). Although their model focused on sporting and financial objectives, Plumley et al recognised that the objectives of owners would also impact on clubs, and these were likely to change over time especially after a club was acquired by new owners (2017:19). They also acknowledged that their PAM looked at just one football league (2017:21).

Barros and Leach (2006) looked at how efficiently clubs in the EPL operated during the period 1998-2003 (2006:401). They explained that inputs in the form of players' wages, amortisation, stadium costs and other operating expenses were transformed into outputs that they summarised as 'Points, attendance and turnover' (2006:392). Their results indicated that clubs could be broken down into four categories.

Elite clubs were primarily focused on sporting success and had the resources necessary to achieve this. These three clubs generated further revenue from regular participation in the latter stages of the UEFA Champions League (2006:392). Below the elite were four or five clubs that aspired to qualify for the Champions League. The next category comprised nine or ten clubs that would neither get relegated nor challenge for participation in European

competition. Finally they identified a category made up of clubs trying to avoid relegation, these were often newly promoted with lower levels of resources available to them (2006:394).

Barros and Leach recognised the role of 'exogenous shocks' (2006:392) such as the acquisition of Chelsea by Roman Abramovich in June 2003. This type of event radically altered both the resources available to a club and its objectives. They also noted that clubs who aspired to join the elite group had sometimes encountered financial problems, referring to the high-risk strategy adopted by Leeds United (2006:395).

They concluded that several clubs were over-reliant on broadcasting revenue which was used to fund players' costs (2006:406). Since Barros and Leach studied only those clubs that remained in the EPL during the period under review their analysis was based on a relatively small sample of just 12 clubs, giving a total of 60 observations (2006:401).

To investigate why increased revenue had not resulted in a corresponding rise in profit, Lonsdale (2004) examined the supply chain for clubs in the EPL. He argued that revenue from the sale of tickets and club related merchandise provided evidence that clubs enjoyed a profitable relationship with supporters (2004:387).

He also suggested that clubs enjoyed power over BSkyB, reasoning that retaining the exclusive rights to live matches distinguished the broadcaster from rivals and was central to its survival. As a consequence when negotiating new broadcasting contracts BSkyB was forced to pay higher amounts in order to retain its monopoly position (2004:386).

However he recognised that revenue generation was closely related to playing success which depended on being able to attract the best players. These were in short supply and sought by clubs across Europe which meant a large proportion of revenue was spent on transfer fees and wages. The Bosman ruling gave players even greater power over clubs by allowing them to leave for no transfer fee at the end of their contracts (2004:389). He concluded that increasing debt, wages and transfer fees gave cause for concern (2004:390).

Szymanski (2010) considered the impact of the global financial crisis on the EPL. Using published information on income and match attendances from both 1929 and the early 1980s, periods when Britain was in recession, he illustrated the stability of the football

sector (2010:33). In most business sectors high levels of competition and a failure to adapt to changing consumer tastes might result in insolvency, however the location of a football club meant it would always have a core audience though this would fluctuate depending on playing success (2010:37).

He concluded that the global financial crisis impacted more on owners than clubs and cited West Ham as an example due to (then) owner Bjorgolfur Gudmundsson, having lost a significant amount of his personal wealth following the collapse of an Icelandic bank in which he was an investor (2010:38). He also explained that due to the way in which the purchases of Liverpool and Manchester United were financed, although the owners might struggle to meet debt repayments it was unlikely either club would go out of business (2010:38). Given their reliance on broadcasting revenue perhaps the biggest threat for most clubs would be the withdrawal of BSkyB. Surprisingly Szymanski made no reference to this.

2.5.6 Summary of section 2.5

Research into the financial performance of football clubs in Europe identified that growth in revenue was not accompanied by an increase in profits and this was primarily due to clubs spending heavily in pursuit of playing success. Several studies identified that many clubs were heavily in debt; over-reliant on broadcasting revenue; and dependent on the soft budget constraints provided by wealthy owners or local government. Worryingly several studies also commented on the poor quality of financial statements. Although several authors recommended that greater financial regulation was required, none agreed on the precise form this should take. Using quantitative and qualitative research methods this thesis will address a gap in literature by examining how the prevalence of a soft budget constraint and stricter financial regulation impacted on the performance of clubs in the EPL.

Chapter 3 - Methodology and data collection

3.1 Overview of chapter

This chapter explains the methodology and research methods employed in this study. It considers research philosophies and methodologies traditionally used in accounting research and outlines limitations in these. It explains in detail the quantitative and qualitative research methods utilised in this study together with the rationale for these.

3.2 Research philosophies

Wisker (2008) explained that 'Research is about asking and beginning to answer questions, seeking knowledge and understanding of the world and its processes, and testing assumptions and beliefs' (2008:51). Saunders et al (2012) observed that this involved 'An explanation of the method or methods used to collect the data, will argue why the results obtained are meaningful and will explain any limitations that are associated with them' (2012:5). Gordon and Porter (2009) commented that academic research had helped to create new knowledge and develop the practice of accounting (2009:3).

The way in which an individual carries out research is affected by assumptions about how they see the world and obtain knowledge (Wisker 2008:65, Gaffikin 1988:16). Saunders et al explained 'The research philosophy that you adopt can be thought of as your assumptions about the way in which you view the world' (2012:128). It is important that we are aware of research philosophies since these will impact upon our choice of methodology and research methods (Wisker 2008:66, Blumberg et al 2011:16).

To understand research philosophy we must first consider ontology and epistemology. Ontology is the assumptions a researcher makes about how the world operates (Bisman 2010:5, Grix 2001:26) and these can be broken down into objectivism and constructivism (Grix 2001:27). Objectivism assumes that the social world exists 'Independent of social actors' (2001:27). This means 'The world is knowable and we all share the same sense of reality' (Wisker 2008:67). Constructivism (or subjectivism) assumes that the world is based on the actions and interactions of social actors and as such is constantly changing or evolving (Grix 2001:27). Saunders et al (2012) recognised that researchers could make use of both objectivism and constructivism (2012:132).

Epistemology is the process by which we acquire knowledge (Bisman 2010:5, Ryan et al 2002:11). A key factor in epistemology is the way in which we gather information and validate or prove our theories. Grix identified two distinct epistemological perspectives, positivism and interpretivism (2001:27). He explained that each perspective or philosophy required the use of a different methodology and would lead to different results (2001:28).

3.2.1 Positivism

Positivism takes the philosophy of research in the natural sciences and applies this to the social sciences (Christenson 1983:7, Grix 2001:27, Smith 2006:5, Wisker 2008:65, Wahyuni 2012:71). Wisker (2008) explained that positivism was based on the belief that 'Human society, like the natural world, is subject to fixed laws; behaviour can be determined; and there is little room for choice or multiple interpretations' (2008:69). This means that research is value free and is not influenced by the opinions of the researcher (Blumberg et al 2011:17).

Bisman (2010) explained that positivist researchers used statistical analysis of a sample of quantitative data to arrive at generalisations that could be applied to the population as a whole (2010:5). In this way positivists believe the characteristics of the sample reflect the population (Blumberg et al 2011:17); and other researchers should be able to replicate these tests and arrive at the same conclusions (Wahyuni 2012:71). In other words positivism believes that the world is 'Describable...provable and measurable' (Wisker 2008:65). Gaffikin (2010) explained that positivist accounting researchers considered quantitative methods superior to other research methods (2010:37).

3.2.2 Interpretivism

Interpretivists argue that positivism is too simplistic to be useful in a dynamic business environment (Saunders et al 2012:137), and due to the complexity of the social world generalisations based on the results of the statistical analysis of a sample of data cannot be applied to the population as a whole (Blumburg et al 2011:18, Wahyuni 2012:71). Interpretivists rely on qualitative research and expand knowledge through 'Observing and interpreting the actions of individuals and groups' (Blumburg et al 2011:18). Since interpretivists believe the researcher cannot be separated from what is being researched, it follows that results are more subjective, and findings may be interpreted in different ways by different researchers (Wisker 2008:66, Bisman 2010:5, Blumberg 2011:18).

3.2.3 Pragmatism and Critical Realism

In addition to the extremes of positivism and interpretivism other epistemological positions include pragmatism and critical realism (Wahyuni 2012:71, Saunders et al 2012:130 and 2012:136). Like positivism, critical realism takes a scientific approach to research and believes in generalisations, however it recognises the complexity of the dynamic social world and 'Accepts the existence of subjective interpretations' (Bumberg et al 2011:18). Since the way in which the researcher interprets their findings is influenced by their own opinions and background, research is value laden (Saunders et al 2012:140, Wahyuni 2012:70).

Unlike other philosophical stances that first establish ontology and epistemology, pragmatism starts with the research question and selects the research philosophy best suited to answering this (Wahyuni 2012:71). Pragmatists recognise that the world is complex and undertake research combining philosophies and methods. This means that quantitative and qualitative data may be used to answer the research question (Saunders et al 2102:130).

3.2.4 The development of accounting research

At the start of the twentieth century accounting research focused on book-keeping and the consistent treatment of similar transactions (Gaffikin 1987:19). Standardisation of accounting practices was greatly assisted by the formation of professional accounting bodies including the Institute of Chartered Accountants in England and Wales in 1880 (ICAEW), the American Institute of Certified Public Accountants in 1887 (Beattie 2002:97) and the Association of Chartered Certified Accountants in 1904 (ACCA).

Gaffikin (1987) explained that Paton's 'Accounting Theory' (1922) was the first attempt to state the general assumptions on which accounting was based (1987:19); and following the Wall Street crash in 1929, government legislation in the USA and increased regulation by the NYSE brought greater uniformity to financial reporting (Beattie 2002:96). Accounting research between the 1930s and early 1970s was mostly normative and focused on establishing the general assumptions that underpinned the preparation and presentation of financial statements (Gaffikin 1987:22 and 2007:8, Laughlin 1995:63, Baker 2011:211), including historic cost, materiality, going concern (Beattie 2002:100), accounting for price changes and matching (Bell 1986:344).

Research during this period was often carried out by financial economists rather than accountants (Gaffikin 1988:20, Beattie 2002:100), and criticised for relying heavily on techniques and theories adapted from economics, finance and other social sciences (Laughlin 1995:63, Smith 2006:1, Ryan et al 2002:34). Baker (2011:212), Gaffikin (1988:24 and 2007:1), Previts et al (1990:144) and Beattie (2002:106) all commented that improvements in accounting methodology were greatly assisted by advances in computer technology. This resulted in the development of databases that contained large amounts of financial information about companies and meant by the end of the 1970s researchers could use positivism and empiricism in financial accounting research. Beattie suggested that the increasing popularity of accounting as a subject studied in universities also assisted the growth of empirical research (2002:106).

During the late 1960s and early 1970s, financial accounting research in the UK and USA focused on the needs of user groups (Bell 1986:352, Beattie 2002:98). The creation of the Accounting Standards Board (ASB) in the UK in 1970 and FASB in the USA in 1973 (Beattie 2002:98) supported this and brought attention to the importance of issuing accounting standards that would enhance the quality of financial statements and assist decision-making (Beattie 2002:102). Whilst publication of 'The Corporate Report' by the ASB in 1975 meant the development of accounting standards needed to take into consideration a wider number of stakeholder groups (Beattie 2002:102). The most influential piece of research in this area was carried out by Watts and Zimmerman (1978) who used positive accounting theory to explain that the accounting standard setting process was affected by political lobbying through which senior managers aimed to maximise their own utility rather than that of shareholders (1978:132). Their results started a heated debate on positive accounting research.

3.2.5 Criticisms of positivist accounting research

Positivism has underpinned most accounting research since the 1970s, however Bell (1986:348) and Richardson (2011:73) argued this had constrained the range of research topics in accounting and discouraged use of some research methods (2011:73). Bowland and Gordon (1992) criticised positivist accounting theory in terms of research methods used and its reliance on financial economics theory (1992:156). Lukka (1995) explained that during the 1980s accounting researchers started to question whether samples were always

representative of the population (1995:79). He suggested that accounting should make use of alternative philosophies including interpretivism and critical realism (1995:75).

3.2.6 The use of qualitative methods in accounting research

Chua (1986) observed that quantitative information was often seen as being more 'Precise and scientific than qualitative evidence' (1986:617), however this meant 'soft' methods such as a case study approach were rarely used (1986:608). She explained that reliance on empirical techniques had led to researchers ignoring other methods (1986:613), and concluded that accounting research could make better use of interpretivism and critical realism though accepted this would not be easy and these also had limitations (1986:626).

Bisman (2010) noted that although critical realism allowed researchers to use triangulation and multiple methods including quantitative and qualitative methodologies (2010:9), it had been largely over-looked by accounting researchers (2010:14). Gaffikin (2010) suggested critical realism would encourage innovative new research that would enable accounting to develop as a discipline (2010:44). However Baker (2011) observed that although researchers including Chua (1986), Laughlin (1987) and Hopwood (2007 and 2008) had used critical realism, many positivists criticised this for not being scientific enough (2011:215). In addition editors of accounting journals showed a strong preference for positivist research (Lukka 1995:76, Ryan et al 2002:171, Smith 2003:19, Gaffikin 2007:15, Baker 2011:209).

3.3 Triangulation and mixed methods research in accounting

Smith (2003) explained that between methods triangulation could involve quantitative and qualitative approaches including interviews and archival data collection (2003:135). He suggested that 'Quantitative and qualitative data are complementary sources that should be combined to take advantage of the richness of qualitative findings, and the potential rigour and increased credibility of the quantitative findings' (2003:136). Bisman (2010) concurred and argued that between methods triangulation enabled a researcher to utilise qualitative and quantitative methods to explore a research question thereby providing 'Confirmatory, corroborative and cross-validating checks on data collection, analysis and interpretation' (2010:12). She explained that although qualitative research was more subjective, reliability and validity remained important (2010:11).

Vaivio et al (2010) explained that structured interviews with eight research active accounting academics in Finland allowed the results of initial quantitative studies to be developed further (2010:134). In this way they believed the use of multiple methods added depth to their study and enhanced the validity of results (2010:133).

Hoque et al (2013) reasoned that quantitative studies couldn't provide answers to all research questions (2013:1171), and using positivist and interpretive approaches could 'Be mutually supportive rather than mutually exclusive' (2013:1179). DiCicco-Bloom and Crabtree (2006) explained that 'Increasingly mixed methods in which both qualitative and quantitative approaches are integrated are needed to contribute to a rich and comprehensive study' (2006:320).

Malmi and Granlund (2009) explained that most management accounting research was 'Not known outside academia' and hence had little impact on the practise of accounting (2009:598). Accounting research was traditionally based on techniques borrowed from other fields (2009:602) or based on normative theories (2009:615). They argued that instead the development and use of accounting theories would provide an identity for accounting (2009:603). They also explained that triangulation methods would be a useful way in which to enhance the validity of accounting research (2009:614). Modell (2005) concurred that triangulation enhanced the validity of research (2005:232); reduced bias in any one method; and provided a better understanding of results (2005:233).

Mathison (1988) suggested that 'Good research practice obligates the researcher to triangulate, that is, to use multiple methods, data sources, and researchers to enhance the validity of research findings' (1988:13). She explained that combining different research methods enabled researchers to overcome the limitations of each research method, thereby improving validity and reducing bias (1988:38). Although convergence was the preferred outcome (1988:15) since this provided further supporting evidence of a phenomenon, Mathison acknowledged that triangulation might result in inconsistency, where methods didn't confirm a single proposition; or contradiction where different methods resulted in different views that were difficult to reconcile (1988:15).

Creswell and Tashakkoki (2007) referred to work by Greene et al (1989) in which they suggested pragmatists should use at least one quantitative method to collect numbers and

at least one qualitative method to collect words (Greene, Caracelli and Graham (1989) cited in Creswell and Tashakkoki 2007:303).

Grafton et al (2011) explained that some researchers believed qualitative and quantitative methods were based on different research philosophies and should not be mixed (2010:10). However they went on to explain that pragmatists used those research methods best suited to answering a research question. In this way triangulation offered opportunities for convergence which would increase the reliability of results (2011:11). Despite this Grafton et al pointed out that there were relatively few examples of triangulation being used in accounting research (2011:13), and this was partly due to leading accounting journals being reluctant to publish research of this type (2011:18).

3.3.1 The use of structured interviews in accounting research

Welch et al (2002) explained that interviews are a 'Verbal interchange…between researcher and informant with the purpose of understanding the latter's experiences and perspectives' (2002:612). Qu et al (2011) observed that some quantitative researchers were not in favour of interviews including Denzin and Lincoln (2000) who suggested that information gathered in this way was 'Unreliable, impressionistic, and not objective' (Denzin and Lincoln 2000:12 in Qu et al 2011:239). Qu et al acknowledged that poorly prepared interviews might provide disappointing results (2011:239) and the process relied heavily on interviewees giving accurate and truthful responses (2011:241), however overcoming these issues meant structured (or standardised) interviews 'Can provide a rich set of data' (2011:239).

To minimise interviewer bias Lilleker (2003:201), Smith (2003:128) and Qu et al (2011:244) explained that structured interviews should comprise pre-set questions asked in the same order; although this reduced the opportunity for more detailed discussion, it assisted with coding and analysis of responses. Smith outlined several factors that could adversely impact on the quality of results including poorly worded questions that caused confusion or misunderstanding; memory lapses by the interviewee which would make responses unreliable (2003:129); and errors in transcribing which were more likely when interviews were not audio recorded (2003:136). However Berry (2002) explained that problems could be overcome through good preparation by the interviewer (2002:681).

Graham et al (2005) produced one of the first pieces of financial reporting research to use qualitative techniques. They used a survey emailed to 3,174 members of the Organisation of Financial Executives (267 responses) and 20 one-to-one interviews with senior finance executives in the USA (2005:9), to obtain information on financial reporting policies. They acknowledged their study had limitations including that respondents might not be representative of the population and could provide corporate responses rather than stating their own opinions (2005:9). However Graham et al explained that the information required could not be obtained using quantitative data (2005:4).

Of the 20 interviews six were face to face and 14 by telephone (2005:10). Interviews were structured so that 'riskier' questions were asked later, once a rapport had developed between interviewer and respondent; and leading questions were avoided (2005:11). Interviews lasted between 30 and 90 minutes and Graham et al concluded that responses, 'Provided insight and depth to further our understanding of the survey responses' (2005:11).

3.3.2 The selection and use of elite (or key) informants

Welch et al (2002) explained that corporate elite informants were '(Usually male)…senior or middle management…; has functional responsibility in an area which enjoys high status in accordance with corporate values; has considerable industry experience and frequently long tenure with the company; possesses a broad network of personal friendships' (2002:613). Kumar et al (1993) observed that key informants 'Are chosen because they are supposedly knowledgeable about the issues being researched and able and willing to communicate about them' (1993:1634). Their research showed the usefulness of information gathered from key informants was affected by a number of factors including position in an organisation (1993:1634), with those in more senior roles providing more useful information (1993:1647); the amount of time spent working in an organisation (1993:1636), with those who had been employed longest having greater knowledge of issues; memory lapses and inaccurate recollection of past events, or bias in 'Attempts to maintain self-esteem' (1993:1634). They suggested that the use of multiple informants would overcome some of these issues thereby increasing reliability and validity (1993:1634).

Tremblay (1957) suggested that their formal role within an organisation should subject key informants to the type of information being sought by the researcher (1957:692). They should be willing to communicate this to the interviewer (1957:692) and keep personal bias to a minimum (1957:692).

DiCicco-Bloom and Crabtree (2006) explained that key informants were selected for their knowledge (2006:315) and to be of most use the sample of respondents should be fairly homogenous and from a background that was related to the research question (2006:317). Individual interviews allowed greater depth than group interviews (2006:315), and to generate useful responses interview questions should be built around the research question (2006:316). They explained that computer assisted qualitative data analysis software such as NVivo could be used to facilitate analysis of responses (2006:318).

Using data from 127 studies published in six leading marketing and management journals Homburg et al (2012) looked at how the reliability of responses from key informants could be improved (2012:594). Their findings included:

- Reliability was better for key informants in more senior positions in an organisation. They reasoned these individuals were involved in decision-making and therefore had access to high quality and timely information (2012:597).
- Key informants that focused on specialist areas were more likely to produce reliable answers than generalists (2012:597).
- Key informants who worked longest for an organisation had greater awareness of the most important issues which increased the reliability of their responses (2012:597).
- Reliability of key informants was likely to be greater in small and medium sized organisations than in large organisations spread over several sites and countries (2012:597).
- Where organisations were operating in a highly competitive sector, key informants were less likely to provide reliable answers to sensitive questions (2012:597).

To overcome issues related to the reliability and accuracy of responses from key informants, Homburg et al suggested interviews should be combined with other research methods (2012:595).

Joseph et al (1996) used a postal questionnaire to investigate how management accountants perceived the relative importance of external financial reporting and management accounting (1996:78). Based on a sample of 308 qualified accountants who were members of the Chartered Institute of Management Accountants (31% response rate) (1996:76), Joseph et al established that responses were affected by the length of post qualification experience and time spent with current employer, both of which were associated with seniority in an organisation (1996:91).

Phillips (1981) explained the main criticisms related to use of interviews centred on the validity and reliability of results (1981:396). He explained that when selecting key informants, researchers should consider both the number of years an individual had worked for a company (knowledge), and their participation in the decision-making process (seniority) (1981:398).

Welch et al (2002) highlighted the challenges interviewing elite informants. Analysis was based on the results of four projects in Finland and Australia that used in depth interviews with 90 corporate elites (2002:616). Their findings suggested it was sometimes difficult to gain access to elite informants however this was often overcome by a researcher's professional credentials or standing, or through an influential sponsor who endorsed a project. However endorsed research might lead to bias in the types of questions asked or responses to questions (2002:614), and this was particularly evident when a sponsor provided funding (2002:620).

Other problems included elite informants having power due to seniority in terms of age which sometimes resulted in the researcher being patronised or criticised for the type of questions being asked (2002:621); the interview being conducted in the informant's office (familiar territory); the informant dominating the interview or unwilling to answer questions that were perceived as being critical in nature; and the researcher overestimating the level of knowledge actually possessed by the informant (2002:615).

In answering questions senior managers would sometimes conform to their organisations' stance on certain issues, which meant an interview might provide little more information than a corporate press release (2002:615). Concerns about anonymity might also impact on the depth and quality of responses, especially regarding what might be perceived as

sensitive issues (2002:621). Despite this Welch et al commented that several researchers were surprised with the frankness of responses (2002:616) and concluded that elite informants from senior management provided rich data (2002:622).

Delaney (2007) discussed his experiences interviewing elites in North America including owners of professional sports clubs, politicians and corporate elites (2007:209). He acknowledged that access could be difficult and stressed the need for a well-structured letter of introduction that explained both the research being undertaken and 'unique' contribution the respondent would bring to the project (2007:212). Delaney warned that due to their perceived status and power, elites might control the interview (2007:215) or cause the researcher 'To be seduced and lose objectivity' (2007:217).

In his analysis of interviewing political elite in the UK, Lilleker (2003) also stressed the need for a letter of introduction that outlined the research area; what an elite informant would add to the study; and broad types of question that might be asked so informants were better able to prepare for interviews (2003:209). Although structured questions might limit discussion, they allowed answers to be more easily compared (2003:210).

Lilleker also explained it was useful that the interviewer had a good knowledge of both the topic under discussion and elite informant, which meant interviews often took place towards the end of a research project (2003:212). Although accessing elites was often time consuming and difficult (2003:213), he concluded that using a well-structured approach ensured 'Data was reliable, relevant and usable' (2003:214).

Stephens (2007) compared interviewing elites face to face and by telephone (2007:203). In each case he used semi-structured interview questions (2007:205). Telephone interviews were cheaper and quicker to conduct (2007:209) but required 'clearer articulation' of questions (2007:210). He advised that questions should be 'Written in advance to ensure they are clearly spoken and direct the respondent accurately' (2007:211). Stephens explained that his elite informants were all from the same academic background as himself (macroeconomics) and this helped with telephone interviews (2007:212). He concluded that 'My experience of telephone interviewing was a successful one…attained a friendly rapport equal to any of my face-to-face interviews' (2007:211) and provided important data (2007:213).

Moore and Stokes (2012) conducted semi-structured interviews on elite informants in the football sector. They explained that 'Gaining access to football industry elites provides a rare and valuable opportunity to explore unique accounts and insights' (2012:441). However clubs were under 'intense media scrutiny' added to which elites were approached on a regular basis to take part in research projects. This made accessing elites in the football sector 'challenging' (2012:439), and reduced opportunities for interviews (2012:454).

Moore and Stokes interviewed 34 participants over a four-year period (2012:451). Interviews lasted between 30-90 minutes; were recorded and later transcribed; the same questions were used which encouraged validity and reliability (2012:451); and 'The data were analysed through intensive reading and re-reading in order to allow prevalent themes, issues and phraseology to crystallise' (2012:451).

King (1997) focused on the EPL and observed 'Elite groups often made themselves unavailable for interview…especially…the most important…directors at the biggest clubs…interviews that were conducted proved useful' (1997:226). King interviewed five directors and reached the point where they confirmed what he established in his review of secondary sources (triangulation) (1997:226).

3.4 Research methods used in this thesis

The literature review showed that several studies adopted a positivist approach in which accounting ratios and econometric models were used to analyse secondary data. Some of these studies can be criticised for their small sample sizes including Silva and Filipe (2013), Barajas and Rodríguez (2010), Barros and Leach (2006), Szymanski and Hall (2003), Arnold (1991), Zoccali (2012) and Risaliti and Verona (2012). Given that the EPL is comprised of just 20 clubs, sample size will always be much less than is available in other industries. For example, Beaver et al (2005) used a sample of 82,953 observations from companies on the NYSE (2005:98).

It was also established that some studies into European club football focused on just one or two years of accounting data which is not always sufficient to establish trends, including Barros (2006), Shareef and Davey (2005) and Yang and Sonmez (2005). Several studies didn't explain in sufficient detail the methodology used, or the rationale for their selection

of ratios including Andreff (2006), Forker (2005) and Barros (2006). There was also little evidence of qualitative techniques being used in research into the football industry.

This project uses mixed methods research in the form of sequential explanatory research design (Saunders et al 2012:167). Initial quantitative analysis examined published financial statements for all clubs that played in the EPL during the 2003-4 to 2014-15 seasons. Qualitative research involved structured interviews with nine elite informants from the football industry. Full details are provided in the next sections.

3.5 Quantitative data collection

3.5.1 Sources of quantitative information

The first stage of this study involved the collection and analysis of quantitative secondary data. This included published financial statements for all clubs that played in the EPL during the sample period, together with accounting data from reliable sources including UEFA, The Premier League and the Deloitte Annual Review of Football Finance.

Every club that played in the EPL during the 2003-4 to 2014-15 seasons was a limited company (see Appendix 1). This meant each produced an annual report that included audited financial statements. Annual reports are public documents that are filed at Companies House (McKenzie 2010:536). Copies of annual reports for all clubs that played in the EPL between 2003-4 and 2011-12 were obtained from the Financial Analysis Made Easy (FAME) database. In June 2015 Companies House launched its beta service (https://beta.companieshouse.gov.uk) which gives free access to annual reports filed at Companies House. Annual reports for all clubs that played in the EPL between 2012-13 and 2014-15 were downloaded from this website. Key accounting information was extracted from each annual report and using Microsoft Excel a database was constructed.

When constructing the database accounting information was initially entered for each club that played in the EPL between the 2006-7 and 2010-11 seasons. Once formulae had been checked and the database reviewed to ensure it contained all necessary information, the sample was expanded to cover all clubs that played in the EPL during the 2003-4 to 2014-15 seasons. With 20 clubs playing in the EPL each season this should have provided 240 sets of audited financial statements. However Portsmouth entered administration and didn't

publish financial statements for the years ended 31 May 2009 and 2010. This reduced our sample to 238 sets of financial statements which was sufficient to evaluate financial performance both before and following the introduction of FFP and STCC.

When extracting accounting information from financial statements, care was taken to ensure that items were treated consistently in the database. For each club revenue was broken down between matchday, broadcasting and commercial; the largest costs incurred by clubs were itemised including wages and salaries, amortisation and impairment of players' registrations, surpluses and deficits arising from player trading, termination payments to coaching staff, and interest payable; current and non-current debt was broken down between soft and hard loans; and the book value of players' registrations was shown separately from other non-current assets. Each item was aggregated to give EPL totals for every year under review. A sample of spreadsheets from 2012 is shown in Appendix 6.

Although the annual report contains a huge amount of accounting information, it is not always easy to evaluate performance using just monetary amounts. To assist analysis in each year for every club 29 accounting ratios were calculated covering profitability and control of costs, efficient use of assets, reliance on debt, and ability to meet short-term obligations (liquidity). The same ratios were also calculated using aggregated figures. Formulae used are summarised in Appendix 2. For each ratio the standard deviation and minimum and maximum values were calculated indicating the spread of financial performance in each year.

This enabled this study to analyse and evaluate the financial performance of each club, and the EPL in aggregate terms during the accounting periods ended 2004-15. Due to the nature of the football industry and objectives of shareholders not all the ratios calculated assisted our understanding of financial performance. Detailed analysis focused on disparities in revenue and the importance of broadcasting revenue, poor control of key costs, low or negative shareholders' equity, and increasing reliance on debt since these were the most worrying aspects of financial performance.

3.5.2 Limitations of financial statements

The application of IFRSs and the conceptual framework is based on principles that rely on informed judgements to determine what constitutes a true and fair view. Maynard (2017)

explained that true and fair meant financial statements were 'Accurate as far as reasonably possible, with professional, informed and reasonable judgement exercised' (2017:70). However there are several examples where financial statements have not provided a true a fair view, and accounting scandals have often been followed by improvements in financial reporting (Elliott and Elliott 2013:228). Although its financial statements were audited, Enron collapsed in 2001 having overstated earnings and concealed off-balance sheet loans (Elliott and Elliott 2013:209). In 2010 the auditors of Northern Rock were criticised by the House of Lords Economic Affairs Committee for not making greater reference to risks and uncertainties surrounding going concern (Maynard 2017:152). In 2014 an accounting error meant Tesco overstated half year profit by £208 million (Vandevelde 2017). Following investigation by the FRC and Serious Fraud Office Tesco had to pay compensation and fines amounting to £214 million (Vandevelde 2017).

Fort (2000) and Fort and Quirk (2004) identified difficulties in using financial statements of sporting clubs even where these were produced in compliance with GAAP. Fort pointed out that to minimise tax sporting clubs would prefer to keep reported profits as small as possible (2000:441), and this was often achieved through payments to related parties and parent companies (2000:441). Dietl and Franck (2007) found evidence of window dressing in German football and use of 'Creative accounting to inflate assets and hide liabilities' (2007:667). Boscá et al (2008) were critical of Real Madrid, which offset revenue from the sale of its training complex against transfer fees paid to acquire players, something that was not allowed under IFRSs (2008:168). Hamil et al (2010) commented that Italian clubs had manipulated financial statements to show 'The most favourable possible presentation' (2010:393). Morrow (2014) suggested that to comply with FFP's break-even requirement, clubs might incorrectly classify certain items of expenditure as infrastructure improvements (2014:92).

Previous studies including Gaganis et al (2008) and Iatridis (2010) showed the preparation of financial statements in accordance with accounting standards improved quality through increasing disclosure requirements (Gaganis et al 2008:137, Iatridis 2010:195), and this reduced opportunities for earnings management and other creative accounting practices (Iatridis 2010:200). However regulatory bodies including the IASB, must be aware of factors

that motivate creative accounting and introduce legislation and accounting standards that reduce the likelihood of its occurrence.

This thesis is reliant on the accuracy of financial statements. All clubs in the sample were limited companies whose financial statements were independently audited, which lessened the scope for errors and omissions. An unqualified auditor's report provides assurance that financial statements have met minimum accepted standards of preparation and presentation (Gaganis et al 2008:125). This means we can assume they are free from material misstatement; have been properly prepared in accordance with accounting standards and the requirements of Companies Acts (1985 and 2006); and show a true and fair view of a company's financial position and performance (Cotter 2012:44).

Accounting information was extracted from company or consolidated financial statements of the legal entity incorporated and registered in the UK, and nearest to the top of the ownership structure. In some cases care had to be taken to identify the financial statements most relevant to this study. For example the parent companies of Hull City and Stoke City are Allamhouse Limited (Hull City Tigers Ltd 2015:17) and Bet 365 (Stoke City FC Ltd 2015:26). Financial statements produced by these parent companies included significant amounts derived from non-football activities and as a consequence analysis was based on the financial statements of Hull City Tigers Limited and Stoke City Football Club Limited, which enabled this study to focus on football related activities.

Using accounting information that covered a 12-year period reduced the impact of anomalies and one-off items. Formulae used to calculate ratios and other performance indicators were clearly defined and consistently applied. Formulae and data used in spreadsheets were checked and re-checked for accuracy, and items extracted from financial statements were treated in a consistent way, all of which enhanced the reliability and validity of quantitative research.

3.5.3 Difficulties analysing quantitative data

A few clubs that were acquired by new owners during this period changed their accounting year end including Aston Villa, Liverpool and Manchester United. So for example in 2012 Liverpool changed its reporting period from 31 July to 31 May in order 'To align with the football season' (Liverpool Football Club and Athletic Grounds 2012:1). This meant financial

statements in 2012 covered the 10-month period ended 31 May 2012. Since accounting ratios express the relationship between numbers, it was considered beneficial to include these financial statements in our sample.

Arsenal's financial statements included revenue and costs from property development. This related to the building and sale of 655 residential apartments on and around the site of their Highbury stadium (Arsenal Holdings plc 2009-10:14). Examination of Arsenal's segmental report meant adjustments could be made to exclude amounts related to property development from the income statement.

Revenue reported by Bolton Wanderers and Chelsea included amounts earned from hotels in their stadia. Although Bolton and Chelsea clearly identified revenue from these non-football activities, the associated costs were not separately disclosed. Revenues and costs related to these activities were included in the database, and their impact on financial statements was not considered to be significant.

Several clubs had loans from owners' and related parties on which low or no interest was payable (soft debt). However treatment of soft debt varied between clubs. A few clubs classified these loans as current liabilities. Although this meant loans were in theory short-term and repayable in the next 12 months, these were usually rolled over from one year to the next. Other clubs classified soft debt as non-current liabilities, which are long-term in nature and repayable in more than 12 months. For our analysis total debt comprised all long and short-term loans, hire purchase and finance lease creditors, bank overdrafts, and preference share capital. In this way all soft debt was treated consistently, and even those loans from owners and related parties that were classified as short-term in nature were included in total debt and capital employed. Notice also that total debt and capital employed were not distorted by accounting adjustments related to current and non-current liabilities including deferred tax and provisions.

A number of ratios used variables from the statement of financial position. In calculating these ratios it was assumed that year end balances were representative of amounts maintained throughout the year. This consistent approach allowed the study of trends over a number of accounting periods.

3.5.4 Analysis of ratios

To assist analysis clubs were broken down into two distinct categories comprised of those that reported a:

- Profit Before Interest and Tax (PBIT)
- Loss Before Interest and Tax (LBIT)

Aggregate ratios were also calculated for those clubs owned and funded by a wealthy benefactor (or 'sugar daddy'). This enabled us to examine the financial characteristics of each category; establish if there were significant differences in terms of financial performance and whether the provision of a soft budget constraint impacted on this; and investigate whether financial performance changed following the introduction of stricter financial regulation.

Analysis of directors' reports and financial statements indicated whether clubs were provided with a soft budget constraint. This meant that even though for example Liverpool, Newcastle United and West Ham United received loans from owners and related parties, there was a stated intention by directors to run these clubs within financial constraints (Liverpool FC Ltd 2015:3, Newcastle United Ltd 2012:2, West Ham United FC Ltd 2015:10). This was very different to for example Manchester City, Chelsea and Fulham, where owners and related parties regularly provided the funds necessary to cover large losses.

It should be noted that in each year clubs were included in the category they were best suited to. This meant the make-up of each category changed every year because of promotion and relegation; changes in financial performance; and occasionally changes in ownership. For example Manchester City played in the EPL throughout this period and at different times appeared in all three categories. In 2006 and 2015 the club reported a PBIT; in every other year it made a LBIT; and from 2008 onwards was funded by wealthy owners who invested significant amounts in pursuit of playing success.

3.5.5 Periods covered by this study

This study focused on clubs in the EPL since reliable financial and other information was more readily available than for clubs in other English leagues. The scale of revenue generated, and costs incurred by clubs in the EPL made comparison with English clubs

outside the EPL less useful. In addition clubs in the EPL were under most scrutiny regarding compliance with financial regulation.

Since all clubs in the EPL operated as limited companies, financial statements were prepared in compliance with UK or International Financial Reporting Standards and the requirements of the Companies Acts (1985 and 2006). All financial statements were independently audited which provided assurance that accounting information was reliable and similar transactions were treated consistently over several accounting periods, allowing horizontal and cross-sectional analysis.

This study focused on the accounting periods ended 2004-15. Before Companies House launched its beta service in 2015, payment was required to access each annual report. To avoid this, annual reports were initially obtained for no charge from the FAME Database which was available through Coventry University's library services. When this study commenced, FAME provided access to financial statements from 2004 onwards.

The sample period provided sufficient data to examine the impact of a soft budget constraint on the financial performance of clubs in the EPL; evaluate the need for increased financial regulation; and establish whether this impacted on the financial performance of clubs. Accounting periods 2004-11 allowed analysis of financial performance pre-FFP; the period 2012-15 enabled analysis following the introduction of FFP.

3.5.6 Investor ratios

The literature review established that investors in football clubs were more interested in sporting success than generating a financial return (Sloane 1971:133, Arnold 1991:181, Storm 2010:93). For this reason and since so few clubs in the EPL generated a satisfactory return for investors or paid a dividend to shareholders, there was little to be gained in calculating investor ratios such as earnings per share, dividend cover or price-earnings, and these were excluded from this study.

3.5.7 Revenue

A number of ratios make use of revenue and it is important to understand what this comprises. When preparing annual financial statements companies must follow the requirements of IAS 18 Revenue, which defines revenue as 'The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when

those inflows result in increases in equity, other than increases relating to contributions from equity participants' (Melville 2014:210).

A football club's revenue comes from several sources including matchday receipts, broadcasting, and commercial activities. Notice that any surplus arising from the sale of players' registrations is not included in revenue since the sale of intangible assets is not classed as part of a club's ordinary activities. Instead any surplus (or deficit) arising from the sale of players' registrations is shown separately in the income statement, usually immediately after the profit from operating activities.

Published financial statements are prepared using the accruals (or matching) concept. This means revenues and costs that relate to the current accounting period are taken into consideration regardless of whether cash has been received or paid by the end of the accounting period (Melville 2014:21). Revenue received that relates to future accounting periods is excluded from the current period's revenue and is instead treated as deferred income (where it is shown as a current liability in the SFP) (Morrow 2003:156). If it meets the requirements of IAS 18, deferred income will be transferred to revenue as it is earned during future accounting periods.

For example in its financial statements for the year ended 30 June 2012 Tottenham Hotspur's current liabilities showed accruals and deferred income amounting to £52 million (Tottenham Hotspur Limited 2012:24). This included revenue arising from the sale of season tickets for the 2012-13 season which commenced in August 2012 (2012:24). This was not treated as revenue in the year ended 30 June 2012 as it represented an advance payment by supporters for matches that would be played during the following accounting period.

From 2011 all clubs in the EPL provided a note to their financial statements in which revenue was broken down between matchday, commercial, and broadcasting activities. Prior to this, where analysis of revenue wasn't included in financial statements it was obtained from the Deloitte Annual Review of Football Finance. Using this information it could be seen how the make-up of revenue changed during the sample period, and whether clubs were over-reliant on any revenue stream.

3.6 Accounting ratios

The next section will consider the accounting ratios used in this study in more detail (see also Appendix 2).

a) Profitability and control of costs

Wages and amortisation as a percentage of revenue (ratios 1, 2 and 3) and Wages as a percentage of non-broadcasting revenue (ratio 7)

Wages and amortisation represent the two largest costs faced by football clubs. A useful way in which to measure control of these costs is by expressing each as a percentage of total revenue and looking at changes in this relationship over a number of years. In this way control of these costs can be examined regardless of changes in the monetary value of each variable. Deloitte (2012:39), Morrow (1999:43), Barros (2006:101) and others have made use of these ratios.

Staff costs include all wages and salaries together with associated taxation and national insurance contributions, and companies are required to provide this information in a note to the financial statements (McKenzie 2010:282). Unfortunately players' salaries were not shown separately in financial statements so the figure for staff costs included salaries paid to all full and part time employees including administrative staff, coaching staff and directors. However since players' salaries made up the largest proportion of staff costs, this did not significantly distort analysis over a number of accounting periods. Under FFPR UEFA can require additional information from a club where staff costs amount to greater than 70% of revenue (UEFA 2015:39).

Analysis of annual reports showed that during the period 2004-15 clubs in the EPL reported aggregate amortisation of £4.8 billion and impairment of £309 million (Calculated from aggregated financial statements of clubs in the EPL 2004-15). The introduction of FFP and EPL rules mean clubs must tightly control wages and amortisation if they are to remain within acceptable deviations, and for this reason wages and amortisation (combined) as a percentage of revenue was also calculated.

To establish whether clubs were over-reliant on broadcasting revenue, wages as a percentage of non-broadcasting revenue was also calculated. This was adapted from wages

as a percentage of revenue (above) and takes into consideration only revenue generated from non-broadcasting activities. For example, in 2012 Wigan's staff costs amounted to 580% of non-broadcasting revenue (Calculated from Wigan Athletic AFC Limited 2012:15), indicating the club was very reliant on broadcasting revenue. However it was found that expressing broadcasting as a percentage of total revenue provided similar information and allowed a more user-friendly presentation.

Profit from operations as a percentage of revenue (4), Profit Before Interest and Tax (PBIT) as a percentage of revenue (5), Profit Before Tax (PBT) as a percentage of revenue (6)

The income statement shows several different profit figures including Profit From Operations (PFO), PBIT, PBT, and profit for the year. PFO excludes amortisation of players' registrations, surpluses or deficits arising from player trading, and interest payable on debt.

Surpluses and deficits arising from player trading may vary greatly from one accounting period to another. For example in the year ended 30 June 2009 Manchester United generated a net surplus of £81 million from player trading, which contributed significantly to a PBIT of £90 million (Red Football Ltd 2009:9). In 2010 the club generated a surplus of £13 million from player trading and a PBIT of £27 million (2010:9). To fully evaluate financial performance it was therefore necessary to look at profit before and after player trading.

By excluding interest payable on debt, the financial performance of clubs could be compared regardless of how they obtained long-term funds (since a club that was reliant on debt would usually incur higher interest payments than a club funded by equity).

Examination of PFO allowed us to consider whether a club was controlling costs arising from its usual day to day business activities, the largest of which was staff costs. A club that reported only a small PFO (or worse still a loss) would be unlikely to meet the break-even requirement of FFP without the profitable sale of players' registrations.

PBIT is after taking into consideration all operating expenses, amortisation of players' registrations, and surpluses or deficits arising from player trading. Notice this profit figure also ignores interest payable, enabling comparison of performance regardless of how a club is funded.

PBT as a percentage of revenue takes into consideration all business expenses together with net interest payable on debt (including interest payable on bank overdrafts).

Ratios that express profit as a percentage of revenue are widely used to evaluate financial performance. For the purpose of this study the ratios used (4, 5 and 6 above) were adapted from Holmes et al (2008:75).

Return on capital employed (ROCE) before (8) and after player trading (9)

ROCE (adapted from McKenzie 2012:329) indicates how efficiently a company uses the funds (capital employed) at its disposal. There are several definitions of ROCE each using different accounting variables and care must be taken to ensure that once selected definitions and variables are applied consistently.

In this study capital employed was defined as shareholders' equity and total debt. Total debt was defined earlier in this chapter; shareholders' equity comprised all ordinary share capital and reserves including retained earnings (or losses), share premium and revaluation reserves. This definition of capital employed was consistent with that used by Holmes et al (2008:180) and McKenzie (2010:304).

By calculating ROCE using PFO and PBIT, it was possible to look at performance before and after player trading. Using these definitions of profit and capital employed also meant ROCE was not affected by interest payable which enabled comparison regardless of whether clubs were funded primarily through equity or debt. However, with many clubs reporting losses and several operating with negative equity, ROCE was often distorted making it less useful in our analysis.

Calculating profitability and control of costs ratios enabled this study to look at trends over a number of accounting periods. The introduction of FFP and EPL financial rules mean clubs need to tightly control costs in order to remain within acceptable deviations. These ratios indicate how likely a club is to achieve this and help identify where problems exist.

b) Capital structure and reliance on debt

Interest cover and net interest payable as a percentage of revenue (ratios 10 and 11)

During 2004-15 several clubs in the EPL became increasingly reliant on debt and it was important that they generated sufficient PBIT to cover net interest payable on this. Interest cover (adapted from McKenzie 2010:307) indicates how many times net interest payable during the current accounting period can be paid from PBIT. A ratio of less than one means a club has not earned sufficient PBIT to meet all interest payable in the current accounting period. A club in this situation will be forced to draw on retained earnings, and once these are exhausted will require an injection of funds to meet any shortfall.

In calculating the figure for net interest payable (or receivable), interest receivable was netted off against interest payable. In a few cases clubs with little or no debt had a positive net interest figure indicating that interest receivable exceeded interest payable, including Stoke City and Wolverhampton Wanderers in 2010, 2011 and 2012 (Stoke City Football Club Limited 2010:18, 2012:18; WW (1990) Limited 2010:15, 2012:15) and West Bromwich Albion (WBA) in 2012 (WBA Football Club Limited 2012:6).

To gauge its significance and enable comparison with wages and amortisation, net interest payable was also expressed as a percentage of revenue. This presentation was consistent with ratios 1, 2 and 3.

Gearing (12)

Gearing indicates an organisation's reliance on borrowed funds, expressing total debt as a percentage of capital employed. For consistency the same definitions were used for total debt and capital employed as were previously outlined when discussing ROCE. These are the definitions and variables most commonly used to calculate gearing (Holmes et al 2008:180, Melville 2014:365, McKenzie 2010:304).

In 2015 WBA had a gearing ratio of 15% (Calculated from WBA Football Club Limited financial statements 2015), indicating that just 15% of capital employed was made up of borrowed funds with the remaining 85% provided by shareholders. Gearing usually has an inverse relationship with interest cover since a higher gearing ratio indicates greater reliance

on borrowed funds, more interest payable, and lower interest cover. Although interest cover can be distorted through owners providing soft loans to clubs on which little or no interest is charged, gearing does not distinguish between soft and hard loans and as a consequence clearly shows a club's reliance on debt.

During the period 2004-15 the scale of cumulative losses meant several clubs had negative shareholders' equity. When combined with loans this resulted in gearing ratios in excess of 100%. For example in 2015 negative equity and soft loans meant Stoke City had a gearing ratio of 162% (Calculated from Stoke City FC Ltd financial statements 2015). Under FFP and EPL Profitability and Sustainability rules, maximum equity contributions will restrict growth of negative equity. This might also require owners to convert soft loans into equity, providing clubs with a more secure source of long-term funds whilst at the same time improving the gearing ratio.

Revenue / Total debt (13)

Football authorities in Italy used revenue / debt as an indicator of how many times total debt could be paid out of annual revenue (Zoccali 2011:88). Zoccali (2011) explained that revenue included amounts from broadcasting, matchday, sponsorship and commercial activities, together with net income arising from the sale of players; and debt included all long and short-term liabilities though these were reduced by cash and cash equivalents (2011:88).

In their study into the financial performance of Spanish football Barajas and Rodríguez (2010:57) used the inverse of this ratio, calculating debt / revenue to establish a club's reliance on debt. Unfortunately Barajas and Rodríguez did not provide a detailed breakdown of their definitions for revenue or debt.

This study adapted Zoccali's (2011) formula since its presentation was consistent with revenue / players' registrations and asset turnover ratios. However since gains arising from the disposal of players' registrations was not guaranteed a more prudent approach was to exclude this from revenue, leaving those amounts that recurred on an annual basis. Hence revenue included all monies earned from broadcasting, matchday, sponsorship and commercial activities; and our definition of total debt was consistent with that used to

calculate gearing and ROCE. These variables were clearly identified in financial statements produced by clubs.

Under FFPR, UEFA can require additional information from a club where this ratio is less than one (UEFA 2015:39).

Profit from operations / Total debt (15)

In his study into bankruptcy in the US restaurant industry Gu (2002) used PFO / total liabilities (2002:34). This showed how much profit was left to repay liabilities once all normal business expenses had been taken into consideration. Gu explained that a higher ratio indicated less likelihood an organisation would default on repayment of loans (2002:38).

Although Gu used total liabilities, this figure comprised all current and non-current liabilities including accounting adjustments such as deferred tax which may not involve an actual movement of cash. This study focused on total debt rather than total liabilities. The variables that made up total debt were clearly identified in the SFP and our treatment was consistent with other ratios calculated.

Total assets / Total liabilities (16)

Gu (2002) also made use of total liabilities / total assets (2002:37). This study used the inverse formula (total assets / total liabilities) which was consistent with presentation of the revenue / total debt and current ratios. A ratio less than 1 indicated that liabilities exceeded assets and an organisation was operating with negative equity. During our sample period several clubs in the EPL had a ratio less than one and were reliant on continued support from wealthy owners and related parties.

Players' registrations (NBV) / Total assets (17)

This ratio indicates the proportion of total assets represented by players' registrations and was adapted from Zoccali's (2011) equity / total assets ratio (2011:88). There is a danger in clubs being over-reliant on the value of players' registrations since a fall in market values might result in liabilities exceeding assets. This situation occurred in Italy during the early 2000s (Risaliti and Verona 2012).

Equity / Total assets (18)

Zoccali (2011) explained that Italian football authorities made use of equity / total assets to establish whether clubs had sufficient equity (2011:88). This ratio indicates how much of an organisation's total assets are funded by shareholders' equity. The smaller this figure the more reliant an organisation is on borrowed funds. With several clubs in the EPL reporting large losses during 2004-15, shareholders' equity was often dangerously low or in some cases negative.

Total debt / Equity (19)

This ratio (McKenzie 2010:305) indicates a company's reliance on debt, and a ratio above one means debt exceeds equity. Our definition of debt is consistent with that used for ROCE and gearing. This ratio is also known as 'leverage' in some countries (Holmes et al 2008:180).

Focusing on hard debt

Although our initial analysis showed that many clubs in the EPL were over-reliant on debt, ratios calculated didn't distinguish between soft debt provided by owners and related parties at low or no interest, and hard debt from outside the organisation. It could be argued that repayment of soft debt was less likely to become a problem. To reflect this a number of ratios were adapted to examine reliance on hard debt.

Revenue / Hard debt (14) and Hard debt / Equity (20)

Revenue / total debt (ratio 13) and total debt / equity (ratio 19) were adapted so that soft debt was excluded. Hard debt included all short and long-term debt including bank loans, overdrafts and hire purchase and finance leases but excluded loans provided by the owners of clubs and related parties. This enabled us to establish dependence on borrowed funds from outside the organisation.

Hard debt gearing (21)

This ratio was adapted from gearing (ratio 12) and treated soft debt as quasi-equity. The definition of capital employed was the same as used in calculating ROCE and gearing ratios. Hard debt included all short and long-term debt (including bank overdrafts and finance leases), but excluded loans provided by the owners of clubs and related parties. This again indicated whether a club was too reliant on borrowed funds from outside the organisation. In addition it showed how a club's financial position would improve if soft loans were converted into share capital.

c) Liquidity

Cash / Total assets (22) and Working capital / Total assets (23)

In his study of the financial performance of Greek football Panagiotis (2009) looked at cash flow / total assets as an indicator of how quickly football clubs could convert assets into cash (2009:163). Horrigan (1968) referred to working capital / total assets as a good indicator of solvency (1968:289). Both ratios evaluated whether a company had sufficient liquid assets to pay debts when they became due. This study used Horrigan's ratio (working capital / total assets), where working capital was current assets less current liabilities and total assets comprised all non-current and current assets. Altman (2000) explained there was no consistent definition of 'cash flow' (2000:8) hence Panagiotis's ratio was adapted to cash / total assets, where cash comprised the year-end figure for cash and cash equivalents.

Current ratio (24)

Altman (1968), Bird and McHugh (1977) and others criticised the usefulness of the current ratio. However Panagiotis (2010) used the current ratio in his analysis of Greek football and this study also included it in initial calculations. Since few football clubs carry significant amounts of inventory the acid test (quick ratio) was not calculated.

Cash flow from operations (CFO) / Profit from operations (PFO) (25) and Cash flow from operations (CFO) / Revenue (26)

Ryu and Jang (2004:18) used both ratios in their analysis of casinos and hotels in the USA. CFO / PFO indicates the cash flow generated from each £1 of PFO; and CFO / revenue

indicates how much cash flow is generated from each £1 of revenue. In both cases a higher ratio indicates better liquidity. CFO is shown in the statement of cash flows and is not distorted by player trading activities. Analysis showed a high correlation between PFO and CFO.

d) Use of assets

Revenue / Players' Registrations (NBV) (27)

Revenue / players' registrations (adapted from McKenzie 2010:361) indicates how much revenue is generated for each £1 spent acquiring players' registrations. Clubs that spend heavily on players may over time achieve sporting success which will increase revenue.

This ratio is easily distorted since for example players acquired at the end of an accounting period may be included as intangible assets but will not have significantly contributed towards revenue. Notice also that a collapse in the general value of players' registrations will cause this ratio to improve. Despite this, over 12 years the impact of these anomalies is less significant allowing trends to be observed.

Asset turnover (Revenue / Capital employed) (28)

Asset turnover (McKenzie 2010:358, Melville 2014:361) takes into consideration all capital employed indicating how much revenue is generated for every £1 invested in a company (McKenzie 2010:358). For consistency the definition of capital employed is the same as used previously. This ratio is again easily distorted by significant additions to capital employed, since some investments may take several years to generate a corresponding increase in revenue (Melville 2014:361).

Stadium utilisation (29)

Deloitte and The Premier League provide data on stadium utilisation and this indicates how full stadia are for EPL league matches played during each season. Football clubs use stadia on relatively few occasions each year. For example during the year ended 30 June 2012 Manchester United reported that Old Trafford staged just 27 events (including 25 home matches) (Red Football Limited 2012:2). It is therefore important that each time an event is

staged, stadium utilisation is as high as possible. Notice also that due to segregation of supporters 100% attendance is not possible.

3.6.1 Player trading activities

The purchase of players' registrations represents a huge investment and it is important to understand how this impacts on financial statements. On 26 August 2014 Manchester United acquired Angel Di Maria for a then British record transfer fee of £59.7 million (BBC News 2014). Manchester United's annual report stated that 'The costs associated with the acquisition of players' registrations are capitalised…Costs are fully amortised using the straight-line method over the period covered by the player's contract' (Red Football Ltd 2014:26). Di Maria was purchased on a five-year contract (BBC News 2014) which meant the transfer fee was capitalised as an intangible asset and written off in equal instalments over the duration of his contract giving an annual amortisation charge of £11.94 million (£59.7m / 5 years).

A full 12 months of amortisation is usually charged on all intangible assets held at the accounting year-end, and no amortisation is charged in the year in which an asset (player) is sold. This meant that Di Maria's acquisition would have impacted on financial statements for the year ended 30 June 2015 as follows:

Income statement for the year ended 30 June 2015 (extract)			**£m**
Amortisation of players' registrations			(11.94)
Statement of financial position at 30 June 2015 (extract)			
	Cost	**Accumulated amortisation**	**Net Book Value (NBV)**
	£m	**£m**	**£m**
Intangible assets – Players' registrations	59.70	(11.94)	47.76

If a club sells a player for more than his Net Book Value (NBV), the surplus will be reported as a profit in the income statement. A player sold at less than NBV will generate a loss, which is again reported in the income statement. Di Maria was sold to PSG for £44.3 million in August 2015 (BBC News 2015a). Comparing the transfer fee received by Manchester United with Di Maria's NBV resulted in a loss on disposal of £3.46 million, and this would have been included in the income statement for the year ended 30 June 2016:

Income statement for the year ended 30 June 2016 (extract)	£m
Loss on disposal of players' registrations (£44.30 - £47.76)	(3.46)

3.6.2 Analysis of ratios

Detailed analysis focused on those ratios that most clearly assisted in evaluating financial performance and identified whether clubs were able to meet the requirements of FFP and EPL financial rules. This corresponds with previous studies by Horrigan (1965), Beaver (1966), Altman (1968), Lev (1969), Taffler and Tisshaw (1977) and Laurent (1979) which showed that a complete analysis of financial performance could be carried out using just a few ratios, as long as these contained key variables from financial statements.

3.7 Structured interviews

The next stage of this project involved the use of qualitative research in the form of structured interviews with elite informants from the football industry. Each elite informant had substantial experience in the football sector; seven were from an accounting background and two had provided advice to UEFA when it was drawing up FFP rules. All informants were males, reflecting that at senior management level this is a male dominated industry. Since they were involved in making high level decisions each had access to good quality and timely financial and other information, and possessed an excellent understanding of FFP and key issues related to the financial performance of clubs in the EPL. It was hoped interviews would add depth to this study (Welch et al 2002:622, Moore and Stokes 2012:441) and augment findings from the quantitative analysis; providing information about attitudes towards disparities in revenue, financial performance, the provision of soft budget constraints, and increased financial regulation.

During the period October 2015 to April 2016, 22 elite informants in the football industry were contacted by email. The sample comprised 17 executive directors from clubs that played in the EPL for more than one season during the period 2004-15; a director of finance for a football league; a CEO of a football league who had previously been CEO of a club in the EPL; and three industry experts.

There was the possibility that elite informants who were involved in the day to day running of a football club might be more critical of increased regulation since this impacted on their

autonomy. To overcome this, it was reasoned that industry experts were likely to provide an alternative perspective which would reduce bias against increased regulation and result in a more balanced series of answers to questions.

Contact details were obtained from company websites or the Premier League Handbook 2015/16. Initial correspondence comprised a letter of introduction that explained the researcher's background; the nature and purpose of this project and progress to date; how discussions with informants would contribute to this study; and that interviews would be recorded, transcribed and anonymised (Delaney 2007:212, Lilleker 2003:209).

Nine didn't respond despite follow up emails and letters. Thirteen responses were received (59%). Three declined to be interviewed (two directors of finance stated they were too busy; one club advised that due to the high number of requests received, it did not engage with projects of this type); ten agreed to be interviewed though unfortunately one resigned his position as CEO on the morning we were due to meet, leaving nine interviews (41%). Full details of elite informants are provided in Appendix 3.

Gaining access to elite informants was time consuming and due to their busy schedules, interviews often occurred six to eight weeks after initial email contact. Once a mutually convenient interview date and time was arranged further details of the research project were sent to informants by email, including participant information and informed consent forms together with general themes for discussion. This allowed informants to prepare more thoroughly for interviews (Lilleker 2003:209) which promoted validity and reliability (Kumar et al 1993:1634, Saunders et al 2012:385).

Interviews took place during the period November 2015 – May 2016 and lasted from 30-60 minutes. Seven interviews were by telephone and two were face to face. Since informants were based in locations around the UK, telephone interviews were effective in terms of cost and time. Occasionally unforeseen circumstances meant elites were required to re-arrange interview times, and telephone interviews provided greater flexibility for this to happen. Email and telephone correspondence prior to interview allowed trust to be established.

Informants were asked the same questions which related to key findings from our quantitative analysis and focused on disparities in revenue and reliance on broadcasting;

rising levels of debt and attitudes to soft budget constraints; and opinions on increased financial regulation (see Appendix 4). In addition everyone except for the three industry experts was asked about control of costs (questions 9-11); these questions related to the use of budgeting in the day to day financial management of clubs.

Before each interview commenced the informant was asked whether our conversation could be recorded. All informants agreed to this request. Interviews were audio recorded using voice recorder software on an iPad. Audio files were password protected and backed up to iCloud.

A short pre-amble introduced each series of questions. The first questions focused on revenue and addressed reliance on broadcasting, disparities in commercial revenue, and whether clubs budgeted for funds from player trading activities. Where applicable, discussion next considered control of costs including whether clubs budgeted to achieve profit. With so many clubs spending heavily in pursuit of playing success, informants were asked about their attitudes towards negative equity and the provision of soft budget constraints. Informants' opinions were sought on whether stricter financial regulation was necessary; potential difficulties including attaching fair values to related party transactions and penalties for breaching FFP and EPL rules; and whether regulation was sufficient to improve financial performance. Finally informants were asked whether aggregate profits in 2014 and 2015 would have been achieved without increased regulation.

Questions were written in advance ensuring clear articulation (Stephens 2007:211), and leading questions were avoided so as not to influence responses (Graham et al 2005:11). Interviews were data anonymised and transcribed immediately following interview thereby reducing the potential for misinterpretation of discussion (see Appendix 5 for a sample transcript); and analysed using NVivo software.

Coding for NVivo was based around interview questions, which assisted with analysis of responses. Transcripts were read several times to ensure themes were correctly coded (Moore and Stokes 2012:451). Results were compared with findings from earlier quantitative analysis to establish the primary causes of poor financial performance and whether further financial regulation was necessary.

Moore and Stokes (2012:439) and King (1997:226) commented on the difficulties accessing elite informants in the football sector and although it would have been helpful to obtain access to a greater number of informants, especially from the largest clubs, discussions were open and honest; provided data that enhanced quantitative analysis; and in their responses to questions informants seemed keen to share their knowledge of the football industry. Analysis of responses suggested that data saturation was reached (Saunders et al 2012:283).

3.8 Reliability and validity

Reliability and validity demonstrate 'The rigour of research proceedings and the trustworthiness of research findings' (Roberts et al 2006:41). Reliability refers to consistency of results and the extent to which data collection and analytical techniques used would generate similar results if repeated by another researcher (Roberts et al 2006:41, Saunders et al 2012:192, Smith 2003:40). This requires that the research process, including any assumptions, is carefully documented, clearly stated, and logical (Ihantola and Kihn 2011:44, Saunders et al 2012:194). Threats to reliability include researcher error, which may occur when 'Two researchers…take slightly differing approaches to collecting the same data, which may result in different responses' (Gratton and Jones 2010:86); researcher bias in the interpretation of data (Roberts et al 2006:43); participant error which is anything that affects responses provided by participants (Roberts et al 2006:43); and participant bias which might result in false responses, or responses that participants think the researcher wants to hear (Saunders et al 2012:192).

Validity is concerned with the extent to which 'Our research achieves what it sets out to do' (Smith 2003:40), so that 'We can draw valid conclusions from a study given the research design and controls employed' (Ihantola and Kihn 2011:41). There are various types of validity. Internal validity looks at reasons for the outcomes of a study 'Or the credibility of causal explanations' (Modell 2009:210). Roberts et al (2006) explained that 'Criterion-related validity is…established when a tool such as a questionnaire can be compared to other similar validated measures of the same concept or phenomenon' (Roberts et al 2006:43). In this way using more than one research method will enhance validity. Construct validity is the strongest form of validity and 'Involves demonstrating relationships between the concepts under study and the construct or theory that is relevant to them' (Roberts et al

2009:43), where the construct is the initial question or hypothesis that determines the data that will be collected, and the methods used to collect this (Golafshani 2003:599). External validity looks at whether research findings can be generalised or transferred to other situations, time periods and settings (Ihantola and Kihn 2011:42, Roberts et al 2009:43, Smith 2003:54).

To reduce interviewer bias and increase generalisability of findings interview questions were written in advance and based on empirical findings and previous studies into this industry, and informants were asked the same questions in the same order (Qu and Dumay 2011:244). Berry (2002) explained there was a risk of finding the arguments and opinions of one elite informant very persuasive which would strongly influence the researcher's understanding of topics under discussion (2002:680). There was also a danger that responses could include personal bias, lack objectivity, or be affected by memory lapses (Berry 2002:680), and that elites might provide standard club or EPL responses especially to sensitive questions (Moore and Stokes 2012:446). To address these issues interviews took place after quantitative data had been analysed which meant the researcher had a good understanding of issues under discussion (Lilleker 2003:212, Mikecz 2012:491). Nine elite informants were interviewed, and responses were cross-checked with empirical findings and published literature. Previous studies showed use of multiple informants improved the reliability and validity of qualitative data collected (Berry 2002:680, Kumar et al 1993:1634, Roberts et al 2006:44). Interviews were audio recorded and transcribed immediately following each interview, and transcriptions were compared with audio recordings to ensure accuracy and improve reliability (Roberts et al 2006:43, Ihantola and Kihn 2011:44), and analysed using Nvivo software. Previous studies have shown use of computerised software such as NVivo assists reliability, helping maintain an audit trail and adding greater rigour to the interview process (Roberts et al 2006:43, Siccama and Penna 2008:102).

Previous studies showed the reliability of informants was greater when these were senior managers in small and medium sized organisations (Homburg et al 2012:606), and from a background related to the research question (DiCicco-Bloom and Crabtree 2006:317, Homburg et al 2012:597). The sample of elite informants all operated at board level and possessed the knowledge and experience required to answer interview questions and contribute to this study.

Although every effort was taken to improve the reliability and validity of qualitative data, it should be noted that individual responses by elite informants were influenced by their own backgrounds, attitudes and biases towards the topics under discussion. As a consequence responses did not always correspond with those of their peers or findings from quantitative analysis.

3.9 Summary

This thesis incorporates elements of positivism and interpretivism. It would be relatively straightforward for another researcher to replicate extraction of financial information and calculation of accounting ratios used in this study. However interpretation of these, together with interpretation of responses by elite informants is affected by the background, experiences and biases of the researcher. This thesis is reliant on the accuracy of financial statements. Although the preparation of financial statements is based on judgements and estimates, the conceptual framework means this is underpinned by an agreed set of principles, concepts and good practice, and compliance with GAAP should result in financial statements that show a true and fair view.

Chapter 4 - Analysis of data

4.1 Overview of chapter

This chapter will identify key revenue streams, examine how these changed during the period under review, and establish causes of disparities in revenue. Accounting ratios will be used to analyse financial performance, examine how soft budgets impacted on this, and consider whether increased regulation addressed the most worrying aspects of financial performance.

4.2 Growth in revenue 1992-2015

In 1992 the 22 football clubs playing in England's top league (Division 1) reported aggregate revenue of almost £170 million (Deloitte 2012:30). The EPL commenced in August 1992 and accompanied by favourable broadcasting agreements was the catalyst for transforming revenue earned by clubs in England's top league. In 2015 the 20 clubs in the EPL generated aggregate revenue of £3.35 billion (Table 4.1).

	2015	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Revenue (£b)	3.35	3.25	2.55	2.35	2.30	2.12	1.97	1.92	1.51	1.37	1.34	1.36
Annual % change	3%	27%	9%	2%	8%	8%	3%	27%	10%	1%	-1%	-
% change on 2004	146%	139%	88%	73%	69%	56%	45%	41%	11%	1%	-1%	-
Ave revenue (£m)	168	163	128	117	115	112	104	96	76	69	67	68
No. of clubs with revenue > average	6	6	6	6	6	6	5	6	6	6	6	5

Table 4.1: Summary of EPL aggregate and average revenue 2004-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

Between 2004-15 aggregate revenue increased by over 146% (Table 4.1) which is particularly impressive given the economic climate after 2008. By 2015 the average revenue generated by clubs in the EPL was almost £168 million. However further analysis showed that in each year no more than six clubs earned revenue above the average, resulting in large disparities.

Table 4.2 shows that aggregate revenue generated by the five largest football leagues in Europe increased from €5.7 billion in 2004 to €12.1 billion in 2015. Throughout this period the EPL was responsible for over one-third of revenue reported by the five largest leagues.

	Revenue 2015 €m (a)	% of total generated by each league	Revenue 2004 €m (b)	% of total generated by each league
England (Premier League)	4,400	36	1,977	35
France (Ligue 1)	1,418	12	655	11
Germany (Bundesliga)	2,392	20	1,058	19
Italy (Serie A)	1,792	15	1,052	18
Spain (La Liga)	2,053	17	953	17
Total	**12,055**	**100**	**5,695**	**100**

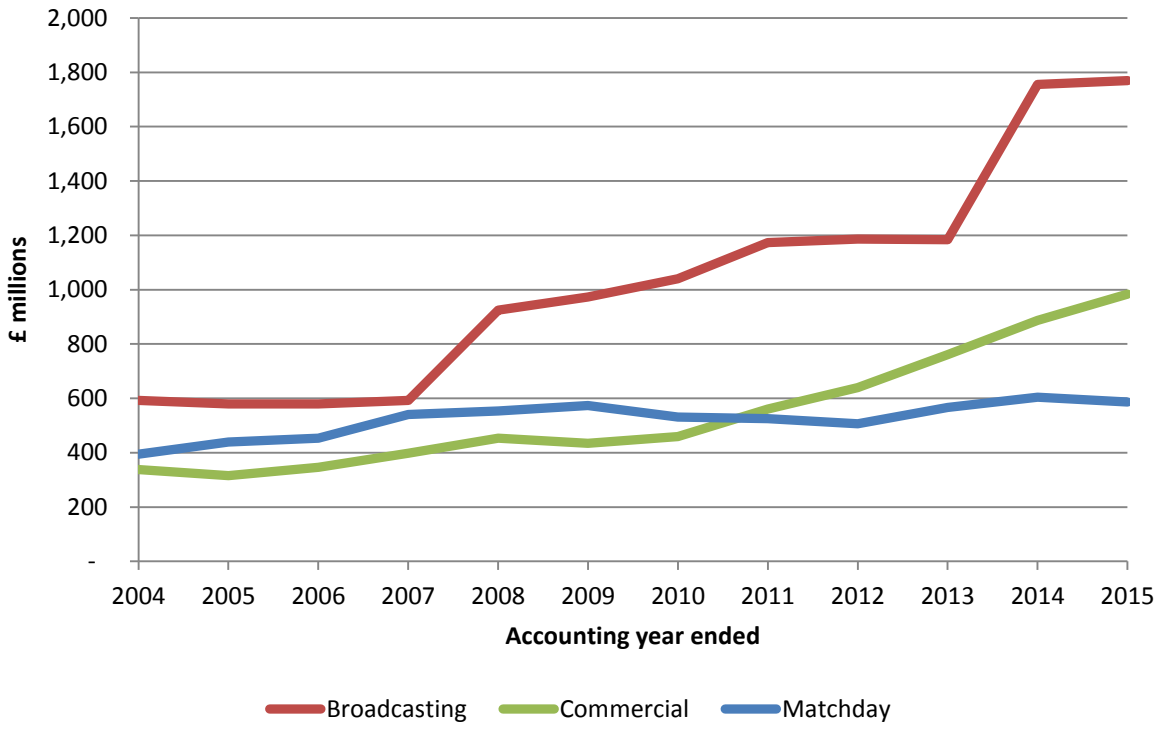
Table 4.2: Revenue generated by Europe's largest five football leagues 2004 and 2015
(Source: (a) Deloitte 2016:9; (b) Deloitte 2013:13)

Figures 4.1 and 4.2 indicate that growth in revenue was driven primarily by broadcasting. In 1992 the year immediately before the EPL commenced, 48% of aggregate revenue was from traditional matchday activities and just 9% from broadcasting (Deloitte 2012:30). By 2004 broadcasting had become the most important revenue stream responsible for 45% of aggregate revenue (Figure 4.2).

The stepped increase in broadcasting revenue shown in figure 4.1 demonstrates growth in successive broadcasting contracts. From August 2013 the importance of broadcasting increased further after BSkyB and British Telecom (BT) agreed to pay £3.02 billion over three years for the domestic rights to broadcast 154 live matches per season (Pearce 2012). This was a 70% increase on the previous contract (Gibson 2015) and meant by 2014 broadcasting made up 54% of aggregate revenue, whilst matchday had fallen below 20% (Figure 4.2).

To put this into perspective in 1983 Arsenal received just £28,000 from broadcasting (Dobson and Godard 1998:779) which represented 1% of the club's total revenue (Banks 2002:104). By 2015 broadcasting of £125 million made up 36% of Arsenal's total revenue (Arsenal Holdings plc 2015:44).

Figure 4.1: Breakdown of EPL aggregate revenue by revenue stream 2004-15 (Source: 2004-10 Deloitte 2012:30; 2011-15 Calculated from aggregated financial statements of clubs in the EPL 2011-15)



Competition between broadcasters for the rights to domestic football meant, 'Every time they come back to re-negotiate, the broadcasting revenue way exceeds the expectations of the market place…Part of that is because of the likes of new players such as BT wanting to come into the market place and they are willing to stir things up a bit' (Informant 6).

From August 2016 Sky and BT agreed to pay £5.14 billion over three years to show 168 live EPL matches each season (Gibson 2015). This amounted to £1.71 billion per season, an increase of 70% on the previous agreement (Gibson 2015). The most successful clubs in the EPL generated additional broadcasting revenue from playing in European competition, particularly the UEFA Champions League. In 2012 Chelsea received almost £51 million from UEFA for winning the Champions League (Deloitte 2013: Appendix 9).

Informant 3 explained that the scale of recent broadcasting contracts had significantly changed the relative importance of revenue streams, 'When I joined 14 years ago we would look at the stats of how many people bought programmes, how many people bought pies. That's really immaterial now' (Informant 3). Informant 1 concurred and suggested that for

several clubs in the EPL, 'The reality is…broadcasting revenue is all important, everything else pales into insignificance' (Informant 1).

With matches broadcast in 185 countries (Premier League 2015a:23) Informant 4 explained,

> 'The global popularity…is driven by the fact that football, like all sport at the very top end is entertainment…Secondly it's to do with the growth in all media forms and the availability of hand held devices and the development of smart TV's, generally the whole perpetuation of new media…Thirdly…It is considered fashionable to follow a club…The final reason is that the EPL has been very successful in ensuring that performance on the field of play is constantly improving through re-investing some revenue.' (Informant 4)

This global fan base enabled the largest clubs to attract high profile corporate sponsors and by 2011 commercial revenue exceeded matchday (Figure 4.2).

Figure 4.2: Relative importance of key revenue streams as a % of EPL aggregate revenue 2004-15 (Source: 2004-10 Deloitte 2012:30; 2011-15 Calculted from aggregated financial statements of clubs in the EPL 2011-15)

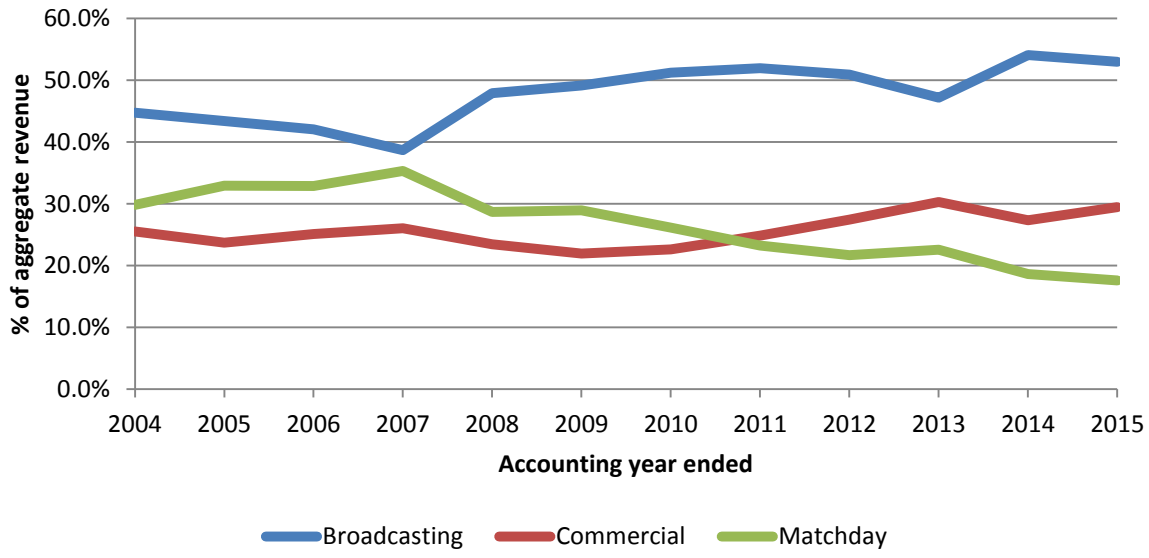


Table 4.3 shows a similar pattern across Europe's five largest leagues with a decline in traditional revenue streams and growing importance of broadcasting and commercial activities. This corresponded with the findings Andreff and Staudohar (2000) who observed that European clubs had adopted the Media-Corporations-Merchandising-Markets-Global model (2000:266).

	Matchday		Broadcasting		Commercial		Total
	€m	%	€m	%	€m	%	€m
England (Premier League)	768	18	2,337	53	1,295	29	4,400
France (Ligue 1)	165	12	628	44	625	44	1,418
Germany (Bundesliga)	521	22	731	31	1,140	47	2,392
Italy (Serie A)	210	12	1,099	61	483	27	1,792
Spain (La Liga)	435	21	975	48	643	31	2,053
Total	**2,099**	**17**	**5,770**	**48**	**4,186**	**35**	**12,055**

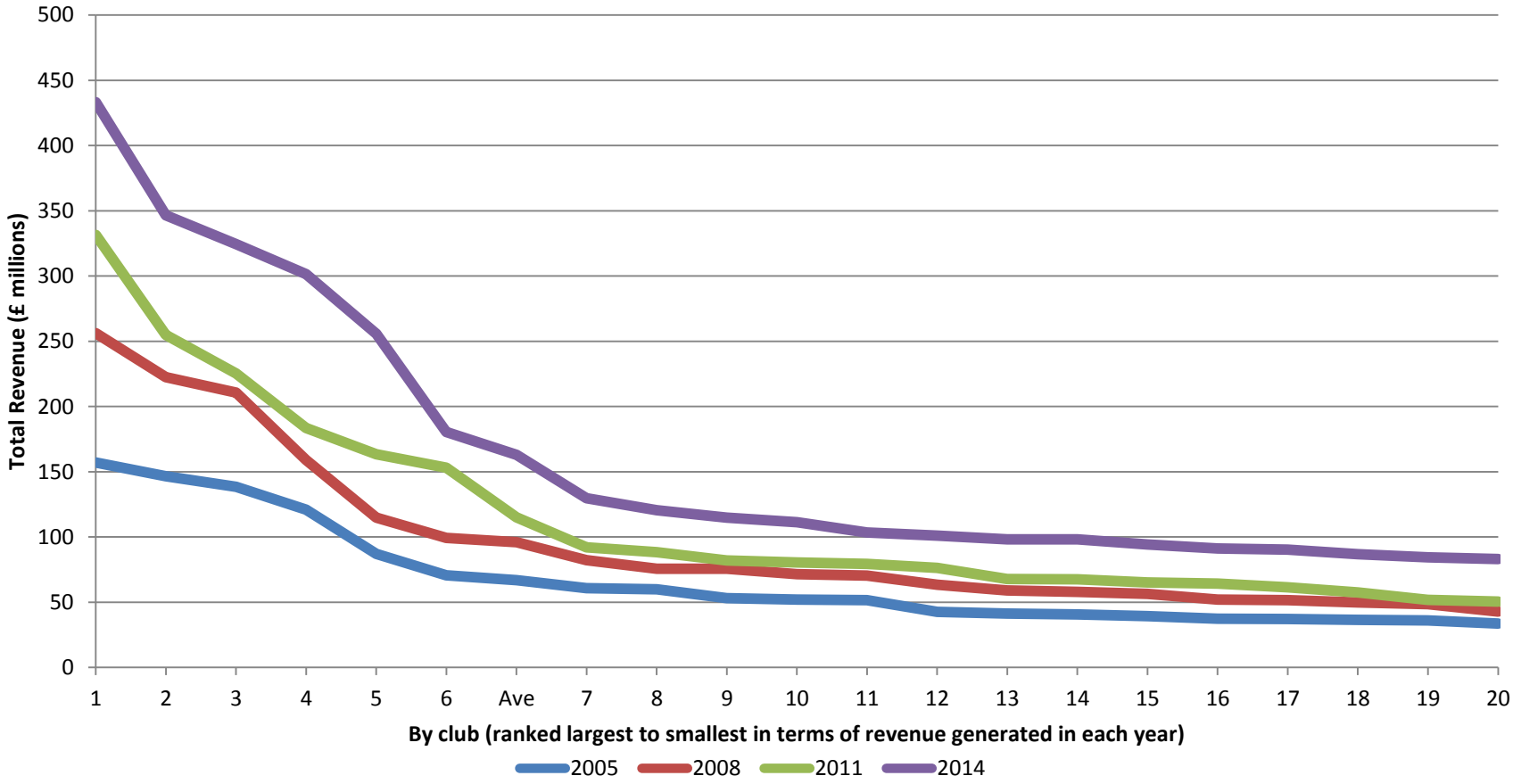
Table 4.3: Breakdown of revenue generated by Europe's largest five football leagues 2015 (Source: Deloitte 2016:9)

Let us consider in more detail what each of these revenue streams comprises. In its 2015 annual report Manchester United defined matchday as 'Revenue receivable from all domestic and European matchday activities from Manchester United games at Old Trafford together with the Group's share of gate receipts from cup matches not played at Old Trafford...and fees for arranging other events at the Old Trafford stadium' (Red Football Limited 2015:22). Other events included revenue from conferences and admissions to the club museum (2015:22).

Commercial comprised 'Revenue receivable from the exploitation of the Manchester United brand through sponsorship and other commercial agreements…and fees for the Manchester United first team undertaking tours' (2015:21). Beech explained that commercial activities included revenue from sponsorship (including shirt sponsorship and the sale of stadium naming rights) (2010:129) and the sale of replica kit and other merchandise to supporters (2010:130).

Finally Manchester United defined broadcasting as 'Revenue receivable from all UK and overseas broadcasting contracts, including contacts negotiated centrally by the FA Premier League and UEFA' (2015:21).

Figure 4.3: Total revenue generated by each club in the EPL from football activities in the accounting periods immediately following new broadcasting agreements 2005-14 (Source: Financial statements of clubs in the EPL 2005, 2008, 2011 and 2014)



4.3 Disparities in revenue

Figure 4.3 shows total revenue reported by each club in the accounting periods immediately following a new broadcasting contract. It clearly illustrates in monetary terms both growth in revenue and increasing disparities, particularly between the six largest revenue earning clubs and the rest of the EPL.

Table 4.4 shows disparities by revenue stream. We can see that in 2015 Arsenal generated £100 million from matchday (the highest amount reported in the EPL) which was almost 17 times greater than the £6 million earned by Burnley (the lowest matchday receipts in the EPL). The multiple was even larger for commercial revenue with Manchester United generating almost 32 times more than the £6 million earned by Burnley. The collective negotiation and equitable distribution of broadcasting revenue meant the multiple was much smaller, and in 2015 Chelsea's broadcasting revenue was just 2.1 times greater than that reported by Queens Park Rangers (QPR).

	2015	2014	2013	2012	2011
	£m	£m	£m	£m	£m
Matchday					
Highest Revenue	100.4	108.1	109.1	98.7	110.8
Lowest Revenue	6.0	7.0	4.6	3.6	4.1
Multiple	16.7	15.6	24.0	27.5	27.1
Broadcasting					
Highest Revenue	135.6	139.9	105.4	111.0	117.2
Lowest Revenue	65.9	64.0	43.0	41.1	42.3
Multiple	2.1	2.2	2.5	2.7	2.8
Commercial					
Highest Revenue	196.9	189.3	152.4	121.1	103.4
Lowest Revenue	6.2	4.5	3.4	2.9	2.0
Multiple	31.8	42.5	44.7	41.4	52.0

Table 4.4: Comparison of disparities by revenue stream 2011-15
(Source: Calculated from financial statements of clubs in the EPL 2011-15)

In 1993 the six largest clubs were responsible for around 50% of aggregate revenue (Table 4.5). The formation of the EPL combined with expansion of the UEFA Champions League

and increased commercialism meant from 2010 onwards the six largest clubs generated around 60% of aggregate revenue. Although average revenue increased rapidly during 2004-15, the rising standard deviation indicated in monetary terms growing disparities between clubs. By 2015 average revenue for the six largest clubs was £317 million; the remaining 14 clubs shared almost £1.5 billion resulting in average revenue of £104 million.

	2015	2014	2012	2010	2008	2006	2004	1993(i)
	£m	£m	£m	£m	£m	£m	£m	£m
Aggregate revenue for EPL	**3,354.9**	**3,249.4**	**2,346.4**	**2,118.8**	**1,920.0**	**1,369.3**	**1,364.4**	**201.6**
Average revenue per club	**167.8**	**162.5**	**117.3**	**111.5**	**96.0**	**68.5**	**68.2**	**9.2**
Number of clubs exceeding average	6	6	6	6	6	6	5	7
Standard deviation	104.4	104.3	79.2	89.1	62.4	41.1	41.1	n/a
Revenue generated by largest 6 clubs	**1,904.5**	**1,841.6**	**1,364.0**	**1,304.0**	**1,062.7**	**737.0**	**725.7**	**100.7**
Average revenue of largest 6 clubs	**317.4**	**306.9**	**227.3**	**217.3**	**177.1**	**122.8**	**121.0**	**16.8**
Revenue generated by remaining clubs	**1,450.4**	**1,407.8**	**982.4**	**814.8**	**857.3**	**632.3**	**638.7**	**100.9**
Average revenue of remaining clubs	**103.6**	**100.6**	**70.2**	**58.2**	**61.2**	**45.2**	**45.6**	**6.3**
% of aggregate revenue generated by largest 6 clubs	**57%**	**57%**	**58%**	**62%**	**55%**	**54%**	**53%**	**50%**
Highest revenue	395.2	433.2	320.3	286.4	256.2	173.2	169.1	25.2
Lowest revenue	78.8	83.1	52.6	43.1	42.8	34.9	38.0	3.6
Multiple	**5.0**	**5.2**	**6.1**	**6.6**	**6.0**	**5.0**	**4.5**	**7.0**

Table 4.5: EPL Key revenue indicators 1993 and 2004-15

Note:

(i) In 1993 the EPL comprised 22 clubs; 2004-15 the EPL comprised 20 clubs.

(Source: 1993 Touche Ross 1993:25; 2004-15 Calculated from aggregated financial statements of clubs in the EPL 2004-15)

4.4 Commercial revenue

From Table 4.4 we can see that the largest revenue multiple consistently related to commercial activities. For many years shirt sponsorship and kit supply have been important sources of commercial revenue, and more recently some clubs have generated large

amounts from the sale of stadium naming rights. Let us examine why these sources of revenue differ so greatly between clubs.

4.4.1 Shirt sponsorship

The FA relaxed its rules on shirt sponsorship during the late 1970s (Siegle 2013) allowing clubs to generate additional revenue by having the names of corporate sponsors displayed on shirts. The success of shirt sponsorship in raising the profile of corporate brands meant contracts became more lucrative. In 1981 JVC paid £500,000 to sponsor Arsenal's shirts for three years (Rosson 2001:10); by 1997 Chelsea received £1.5 million per year from Autoglass (Szymanski and Kuypers 1999:70).

Rosson (2001) explained that the most successful clubs generated the highest amounts from shirt sponsorship (2001:8). These clubs were likely to attract the best players (2001:10); be most often involved in live televised matches; and play in the later stages of cup competitions including the UEFA Champions League (2001:12); all of which helped raise the global profiles of shirt sponsors (2001:12). In addition replica kit and other merchandise often included the shirt sponsor, and it was the largest and best supported clubs that had the highest sales of club related merchandise (2001:9). Jensen et al (2012) observed that when Aon agreed to sponsor Manchester United's shirts in 2009 its directors stated that 'Our brand will be showcased to over 330 million fans of Manchester United as well as countless followers of football worldwide' (2012:516). In 2010 Sharp's Marketing Communications Manager admitted that 'Since we stepped away from Manchester United the awareness of Sharp has fallen' (Goss 2010).

Sports marketing research company Repucom (2015) calculated that during 2014-15 EPL clubs earned €213 million from shirt sponsorship (Repucom 2015). This represented 33% of shirt sponsorship revenue generated by the five largest leagues in Europe and was significantly higher than amounts received by clubs in Germany's Bundesliga (€139 million) and Spain's La Liga (€113 million) (Repucom 2015). The global appeal of the EPL was further demonstrated with 75% of revenue coming from overseas sponsors (Repucom 2015).

Figure 4.4: Shirt sponsorship by club 2013-14 and 2014-15
(Source: Miller and Harris 2014)

Figure 4.4 shows the huge amounts generated by the largest clubs during 2014-15, with Manchester United (Chevrolet) receiving £47 million, Arsenal (Emirates Airlines) £30 million, and Liverpool (Standard Chartered) and Manchester City (Etihad Airlines) £20 million each. Figure 4.4 also shows that during 2014-15 Burnley, Leicester, Southampton and Crystal Palace earned less from shirt sponsorship than Chelsea received in 1997.

Table 4.6 summarises the findings of Miller (2010, 2013) and Miller and Harris (2011, 2014) and clearly demonstrates recent growth in shirt sponsorship whilst highlighting significant disparities in the amounts received by clubs. Although during 2009-15 aggregate revenue from shirt sponsorship increased by 165% to £191 million, around three quarters of this amount was consistently earned by just six clubs.

The multiple in table 4.6 highlights differences between the highest and lowest amounts generated from shirt sponsorship. For example during 2009-10 Manchester United received £14 million from shirt sponsorship which was 70 times greater than the £200,000 generated by Blackpool. This multiple continued and during 2013-14 Arsenal received more from shirt sponsorship in one week than Cardiff earned in 12 months.

In October 2004 Emirates Airlines paid £100 million to become Arsenal's shirt sponsor from 2006-13 and for stadium naming rights during 2006-21 (Gibson 2004). The shirt sponsorship element was estimated to be worth around £5.5 million per season (Miller 2013) which was at the time the largest in the EPL (Gibson 2004).

We can see from table 4.6 that over a relatively short period of time the amounts shirt sponsors were prepared to pay the most successful clubs increased significantly and by 2012-13 Arsenal lagged behind its rivals. This was remedied in November 2012 when Arsenal and Emirates agreed a new contract for shirt sponsorship until 2019 and stadium naming rights until 2028 (Arsenal Holdings plc 2013:11).

In 2011 Manchester United became the first club in the EPL to sell shirt sponsorship on its training kit when DHL paid £40 million over four years (Gibson 2011). This meant DHL paid

more to advertise on Manchester United's training kit than all but five sponsors paid for advertising on first team shirts (Gibson 2011).

Club / Season	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10
	£m	£m	£m	£m	£m	£m
Arsenal	30.0	30.0	5.5	5.5	5.5	5.5
Chelsea	18.0	18.0	13.8	13.8	13.8	9.9
Liverpool	20.0	20.0	20.0	20.0	20.0	7.5
Manchester City	20.0	20.0	20.0	20.0	7.5	7.3
Manchester United	47.0	20.0	20.0	20.0	20.0	14.0
Tottenham Hotspur	16.0	19.0	10.0	10.0	10.0	8.5
Total	151.0	127.0	89.3	89.3	76.8	52.7
As a % of EPL total	**78.9%**	**76.6%**	**60.1%(i)**	**76.0%**	**76.2%**	**72.9%**
Everton	5.3	4.0	4.0	4.0	2.6	2.6
Stoke City	3.0	3.0	1.3	1.0	1.0	1.0
West Bromwich Albion	1.2	1.5	1.5	1.1	0.8	n/a
Wigan Athletic	n/a	n/a	1.0	1.0	0.7	0.7
Aggregate for EPL	**191.4**	**165.8**	**147.1**	**117.5**	**100.5**	**72.3**
Annual % increase	15.4%	12.7%	25.2%	16.9%	39.0%	-
Cumulative % increase on 2009-10	164.7%	129.3%	103.5%	62.5%	39.0%	-
Highest (£m)	47.0	30.0	20.0	20.0	20.0	14.0
Lowest (£m)	0.75	0.5	0.5	0.4	0.5	0.2
Multiple	63	60	40	50	40	70

Table 4.6: Shirt sponsorship in the EPL 2009-2015

Note:

(i) Miller (2013) explained his original figures for 2012-13 were overstated with Sunderland earning much less than the £20 million estimated in August 2012. This is why during 2012-13 shirt sponsorship earned by the six largest clubs amounted to just 60% of the EPL aggregate compared with over 70% in every other year.

(Source: 2014-15 and 2013-14 Miller and Harris (2014); 2012-13 Miller (2013); 2011-12 and 2010-11 Miller and Harris (2011); 2009-10 Miller (2010))

However following negotiations with General Motors over sponsorship of first team shirts, Manchester United believed it had undervalued its training strip and in October 2012 announced the agreement with DHL would come to an end on 30 June 2013 (Anon 2012). In an announcement to the New York Stock Exchange the club outlined the reasons behind this stating 'The significantly increased value of agreements concluded since entering into this agreement, such as our recent $559 million world-record shirt sponsorship with General

Motors, leads us to believe that there should be strategic opportunities to further optimise the value of these rights' (Anon 2012). This was proved correct when UK insurance broker Aon agreed to pay £15 million per annum to sponsor training kit and have Manchester United's training ground renamed the Aon Training Complex for an eight-year period from 1 July 2013 (Joy 2013).

The most successful clubs often enjoyed lengthy contracts with shirt sponsors. From 1981-99 Arsenal was sponsored by JVC (Rosson 2001:10), and Emirates recently extended shirt sponsorship until 2019 (Arsenal Holdings plc 2013:11). Danish brewing company Carlsberg sponsored Liverpool for 17 years until 2010 (Liverpool FC 2013), and Japanese electronics company Sharp sponsored Manchester United from 1982-2000 (Goss 2010).

However clubs outside the top six struggled to develop lasting relationships with shirt sponsors,

> 'Generally you are looking at probably two to three years. It's unusual to go any longer than that. As long as you've got clauses in there where the income reduces if you do get relegated then the sponsors are quite happy to go for a two or three-year deal.' (Informant 8)

During the 2008-09 and 2009-10 seasons WBA had no permanent shirt sponsor and instead agreed sponsorship on a match by match basis (Anon 2010). During 2009-14 Sunderland had four different sponsors and Aston Villa, Fulham and Newcastle each had three different sponsors (Miller 2010, Miller and Harris 2012 and 2014). Miller (2010) explained that without the arrival of online gambling and payday loan companies, several clubs would have seen a decline in revenue from shirt sponsorship. He also suggested these organisations were interested only in short-term sponsorship to raise brand awareness (BBC News 2010). This reflected that clubs outside the top six had less bargaining power with sponsors and were more likely to accept a short-term arrangement with the highest bidder. It also meant these clubs were very reliant on broadcasting revenue, 'Luckily for us when it comes to broadcasting it's still collective bargaining. On the sponsorship side it's very evident how the

big clubs can sign really big deals, even for training kits. Significantly higher than any income we could receive for our main kit' (Informant 9).

Despite these disparities, there was consensus among elite informants that broadcasting had improved the global profile of every club in the EPL and this impacted favourably on shirt sponsorship,

> 'Being a PL club attracts big name sponsors whoever the club is and it really does allow you to generate revenue that you certainly can't do in the Football League…The actual step…from a media exposure point of view when you get into the PL is absolutely enormous and that makes you a very marketable commodity as a football club.' (Informant 8)

> 'Most sponsors look at whether you are going to be in the EPL or not since that is where the exposure is going to be.' (Informant 9)

However this meant contracts usually included clauses that greatly reduced commercial revenue in the event of relegation from the EPL,

> 'Typically shirt sponsor deals would have a differential level of fee dependent on whether it's EPL, Championship or League 1.' (Informant 1)

> 'We've always had to sign a tiered agreement where even if it is a multi-year sponsorship agreement it's going to be based on, if we are in the EPL it's going to be a certain amount; and if you're not it's going to go down to an amount that is significantly lower. Not just a bit lower but significantly lower.' (Informant 9)

4.4.2 Stadium naming rights

Crompton and Howard (2003) observed that although shirt sponsorship was common in the EPL few clubs had explored stadia naming rights as a revenue stream. This was the reverse of what had happened in US sporting leagues where only discrete shirt sponsorship was permitted (2003:213) but stadia naming rights were common (2003:212). However the success of shirt sponsorship led Crompton and Howard to conclude that whilst there were

opportunities for clubs in the EPL to generate revenue from the sale of stadia naming rights, the amounts realised were unlikely to match those in the US (2003:225).

In 2013 global valuation consultants American Appraisal estimated that clubs in the EPL could generate aggregate revenue of around £75 million each season from the sale of stadia naming rights (De Menzes 2013). However their report highlighted significant disparities between clubs, with 80% of revenue going to Manchester City (£18.2 million), Manchester United (£16.9 million), Arsenal (£6.6 million), Liverpool (£6.1 million), Tottenham (£5.8 million) and Chelsea (£5.5 million) (De Menzes 2013). This left the remaining 14 clubs with a share of £15.4 million of which it was forecast Cardiff would receive less than £300,000 and Crystal Palace and Norwich around £400,000 each (De Menzes 2013). Based on these figures Manchester City would receive 61 times more than Cardiff (£18.2m / £0.3m), a multiple comparable with shirt sponsorship.

Arsenal became the most high-profile club in the EPL to sell naming rights when the newly build Ashburton Grove was re-named the Emirates Stadium from the start of the 2006-07 season (BBC News 2004). From Arsenal's perspective this was particularly attractive since Emirates paid the whole amount up front in the form of a discounted lump sum (Scott 2011) which the club used towards the cost of building its stadium.

In July 2011 Manchester City's stadium was renamed the Etihad in a 10-year sponsorship agreement with the Abu Dhabi based airline (BBC News 2011a) that was worth around £400 million (Miller 2011:24). With Manchester City's owner Sheikh Mansour and his family represented on the Etihad board, the scale of this transaction came under scrutiny to ensure it was not an attempt to bypass FFPR (UEFA 2017:Manchester City),

> 'At the time the immediate response was "Wow" that seems like a significant amount. There are a couple of things to note. One Etihad is not directly controlled by Sheikh Mansour...from a legal perspective and an accounting perspective they are not related companies…No one has actually queried the £400 million because everything that's followed has put that into some perspective. It wasn't long after that Manchester

> United got £50 million sponsorship for their training kit. So what is a market rate?' (Informant 6)

Several other clubs in the EPL have raised funds through the sale of stadia naming rights including Bolton Wanderers, Coventry City, Hull City, Leicester City, Middlesbrough, Southampton, Stoke City, Swansea City and Wigan Athletic (BBC News 2011a). However these clubs sold naming rights for recently built stadia. Referring to sporting clubs in the USA, Crompton and Howard (2003) observed that 'A change of venue helps to sever the emotional allegiance tied to the memories, heritage and traditions which fans have to existing facilities' (2003:225). Elite informants explained it was more difficult for clubs with long established stadia to exploit this revenue stream,

> 'The difficulty is the so called…iconic names that have been attached to some of the stadia…We do get feedback that it would be difficult to re-name a stadium such as ours and we're quite a small club with very limited history so to speak. Even a club like Spurs faces difficulties, as a more established club trying to sell stadium naming rights.' (Informant 9)

> 'We've considered it. Because of the age of the stadium…it would always be "The Club B ground" even in the media…Even a sponsor is going to realise that, so it's never going to carry the same sort of value a new stadium will have.' (Informant 3)

This was clearly illustrated in November 2011 when supporters criticised Newcastle United after its stadium was re-named the 'Sports Direct Arena' (BBC News 2011).

It was also recognised that even a relatively new stadium might struggle to attract sponsorship once the original sponsor withdrew,

> 'The Reebok [Bolton Wanderers] was one of the first. When you are building a new asset they can be far more meaningful as the name sticks. Macron have recently taken over the sponsorship of that stadium, it will be very interesting to see to what extent that name sticks.' (Informant 1)

Aon's sponsorship of Manchester United's training ground suggests the sale of stadia naming rights might prove an important revenue stream particularly as clubs strive to meet the requirements of FFP. However it is likely that the six largest clubs will continue to attract the most lucrative sponsorship which will widen further disparities in the financial resources available to clubs.

4.4.3 Kit supply

Demand by supporters for replica kit has generated another important source of revenue. Szymanski and Kuypers (1999) reported that in 1996 Reebok paid Liverpool £6.5 million per year to supply kit (1999:71). During the first year of that contract Reebok generated revenue of £40 million from the sale of replica shirts (1999:71). In 1996 Umbro agreed to pay Manchester United £42 million over six years and during 1996-97 alone supporters purchased around 850,000 replica shirts (1999:71). However these paled in significance when compared against Manchester United's next kit supply contract. From August 2002 Nike became Manchester United's official kit supplier in a 13-year agreement that was worth up to £303 million (Manchester United plc 2002:20). During the first 12 months Nike sold 2.5 million replica Manchester United shirts, with 40% of sales outside the UK (Manchester United plc 2003:7).

With the EPL having players from around 60 different countries (Vojdinoski 2013) sportswear manufacturers were quick to recognise the global appeal of replica shirts and during 2012-13 clubs received £117 million from kit suppliers (Repucom 2013). This was more than any other European league and reflected the popularity of EPL clubs which sold over 5 million replica shirts during 2012-13, double the amount sold by Budesliga clubs (Bensch 2013).

The largest kit supply agreements are summarised in table 4.7 and show that new suppliers have entered the market including US companies Under Armour (Tottenham), and Warrior (Liverpool). These demonstrate the amounts that suppliers are prepared to pay to access the global fan bases of the EPL's most successful and best supported clubs.

Despite the scale of recent agreements the contract between Manchester United and Nike remained competitive. It was rumoured that Nike offered to pay Manchester United a world record £60 million per annum to continue as kit supplier until July 2020 (Kent 2013). However with Manchester United seeking an amount nearer to £70 million (Jackson 2014), in July 2014 Nike announced, 'The terms that were on offer for a renewed contract did not represent good value for Nike's shareholders' (Wilson 2014). It was subsequently announced that Adidas would supply Manchester United's kit for ten years from July 2015 in a deal worth around £75 million per season (Wilson 2014). This was significantly more than the £31 million per year agreement between Adidas and Real Madrid, which was previously the world's largest kit supply contract (Wilson 2014).

Manchester United's contract with Adidas also illustrated the importance of regular participation in the Champions League to the largest clubs and their sponsors. Although the club receives bonuses for winning competitions, the annual amount is reduced by 30% if Manchester United doesn't play in the Champions League for two successive seasons (Red Football Ltd 2014:59).

Club	Sponsor	Duration	Estimated annual amount
Manchester United (a)	Adidas	10 years (from July 2015)	£75 million
Arsenal	Puma	5 years (from July 2014)	£30 million
Chelsea	Adidas	10 years (from July 2013)	£18-30 million
Liverpool	Warrior	6 years (from July 2013)	£25 million
Manchester City	Nike	6 years (from July 2013)	£12 million
Tottenham Hotspur	Under Armour	5 years (from July 2012)	£10 million
Manchester United (b)	Nike	13 years (from July 2002)	£23 million

Table 4.7: Recent agreements between EPL clubs and kit suppliers
(Source: Manchester United (a) Wilson 2014; Arsenal BBC News 2014a; Chelsea Happe 2013; Liverpool Bensch 2013; Manchester City BBC News 2013; Tottenham Hotspur Anon 2011 and Tottenham Hotspur 2011; Manchester United (b) Manchester United plc 2002:20).

Despite being one of only seven clubs that played in the EPL in every season from 1992-2015, Aston Villa's four-year kit supply contract with Macron which commenced in July 2012 was worth just £3.75 million per year (Kendrick 2012). Whilst in 2011 WBA agreed a three-year contract with Adidas worth around $2.4 million per year (£1.5 million) (SportsPro Media

2011). Informant 7 explained, 'There is polarisation in the sponsorship market. People want the big brands and therefore you are going to get Manchester United with £70 million kit sponsorship per annum and Bournemouth who might struggle to get £2 or £3 million' (Informant 7).

4.4.4 Establishing the fair value of transactions

Prior to their introduction there were concerns that clubs might circumvent FFP and EPL acceptable deviations through inflated sponsorship or commercial transactions with related parties (Miller 2011:23, Vöpel 2011:58). Elite informants explained,

> 'When they [UEFA] want to question market values or are looking at related party transactions, it is very subjective…It's a difficult process to look at each and every single transaction to see if it's market based or not.' (Informant 9)

It was suggested that the scale of recent commercial transactions made it more difficult for UEFA to question whether these represented fair value,

> 'Two or three years ago you would never have foreseen that there would be that level of sponsorship available. So it's very difficult to start to attack some of those and as you know they are not even related parties…No-one would ever have thought that you could commercialise Manchester United's content the way that they've done.' (Informant 7)

In addition it was pointed out that challenging fair values might bring UEFA into conflict with a club's auditors,

> 'Where I have a difficulty is that you can have your accounts signed off by a big four auditor saying this isn't a related party transaction, and yet UEFA could actually turn around and say it is. So what are you saying? That the accounts are not true and fair? So it's fraught with huge difficulties in terms of attacking those related party transactions.' (Informant 7)

This was contrasted with EPL rules where, 'The EPL won't look into…a…transaction if the club's auditors don't believe that it is a related party transaction' (Informant 5).

In 2015 UEFA employed accountants PWC and sports research company Repucom to evaluate whether sponsorships paid by Russian bank VTB to FC Dynamo Moscow represented fair value transactions (UEFA 2017),

> 'One that has actually become available is the Dynamo Moscow case. They [UEFA] wrote down their sponsorship amounts by a considerable number…UEFA…are adjusting those sponsorship figures downwards where they believe there are related party transaction issues.' (Informant 5)

VTB owned 74% of share capital in FC Dynamo Moscow and was also the club's primary sponsor (UEFA 2017). The investigation resulted in sponsorship received from VTB during 2012-14 being adjusted downwards and meant FC Dynamo Moscow reported a cumulative deficit that was €257 million greater than the acceptable deviation (UEFA 2017). The CFCB adjudicatory chamber banned the club from UEFA club competition for four years (UEFA 2017), demonstrating how seriously UEFA takes this issue.

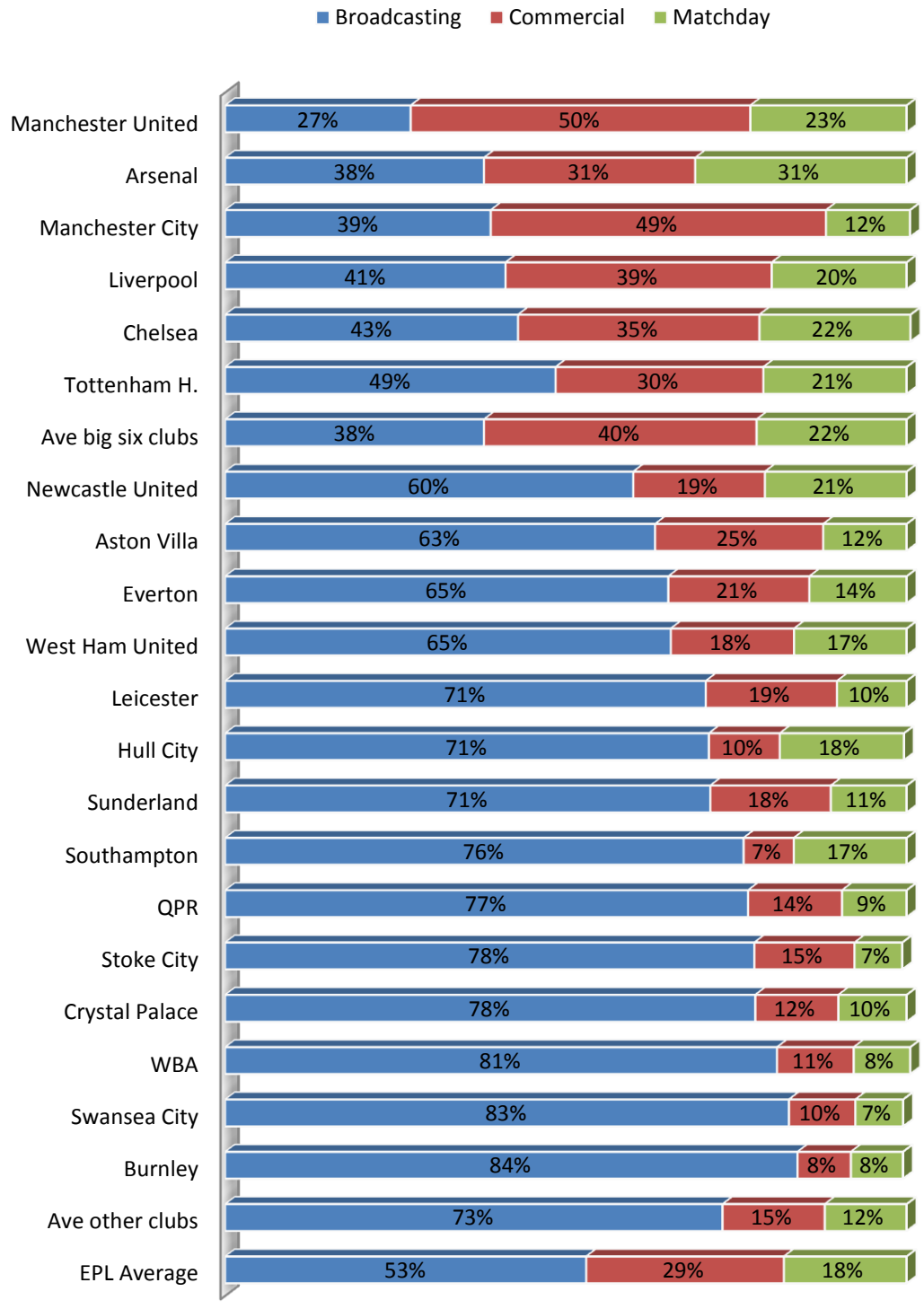
It was agreed that the key factor in calculating fair value was transparency, 'As long as there's a sensible asset backing it [sponsorship] up, you can understand it' (Informant 6).

4.5 Changes in the relative importance of revenue streams

During the last few years clubs in the EPL have provided a note to their financial statements that breaks down total revenue between matchday, broadcasting and commercial activities. Figure 4.5 summarises this information in percentage terms and showed that in 2015 broadcasting amounted to more than 70% of revenue reported by 10 clubs including Burnley (84% of total revenue), Crystal Palace (78%), Stoke City (78%), Swansea (83%) and WBA (81%). From figure 4.5 we can also see the growing importance of commercial revenue for the six largest clubs.

Let us consider each revenue stream in more detail.

Figure 4.5: Breakdown of total revenue (%) for each club in the EPL 2015 (Source: Calculated from financial statements of clubs in the EPL 2015)



4.5.1 Matchday

Deloitte (2013) reported that in every season between 1997-8 and 2012-13 stadium utilisation in the EPL exceeded 90% (Deloitte 2013:10). Attendances at EPL matches continued grow and the Premier League (2015b) reported that 'The 2014-15 season marked a record level of occupancy in Premier League grounds, with 95.9% of tickets available sold…It also marked the third season in a row that occupancy exceeded 95%' (Premier League 2015b). Consistently high stadium utilisation saw total matchday receipts increase by 15% during the period 2011-14 (calculated from table 4.8). Despite this, the relative importance of matchday continued to decline and by 2015 it amounted to just 18% of aggregate revenue (Table 4.8).

Year	Six largest clubs			Remainder of EPL			Total	
	Matchday receipts £m	As a % of aggregate revenue	As a % of total matchday	Matchday receipts £m	As a % of aggregate revenue	As a % of total matchday	Matchday receipts £m	As a % of aggregate revenue
2011	362.4	28	69	162.3	16	31	524.7	23
2012	363.5	27	72	142.6	15	28	506.1	22
2013	390.3	26	69	176.3	17	31	566.6	22
2014	420.2	23	70	183.7	13	30	603.9	19
2015	405.3	22	69	181.2	12	31	586.5	18

Table 4.8: Breakdown of matchday receipts 2011-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2011-15)

Further analysis of table 4.8 showed that in each year the six largest clubs earned around 70% of total matchday receipts. This group included Arsenal and Manchester United who accounted for around 36% of matchday receipts generated by EPL clubs during 2011-15 (Calculated from financial statements of clubs in the EPL 2011-15).

Throughout the last decade Manchester United (average attendance 75,538 (Premier League 2015:550)) and Arsenal (59,930 tickets sold for each home match (Arsenal Holdings plc 2015:8)) owned the two largest stadia in the EPL and this provided a financial advantage in terms of matchday receipts (Table 4.9). Regular participation in the UEFA Champions League increased matchday further still. In 2014 matchday receipts reported by Manchester United exceeded the total revenue of 11 clubs in the EPL, whilst Arsenal's matchday was greater than the total revenue of nine clubs.

	Matchday		Commercial		Broadcasting	
	2015	2004	2015	2004	2015	2004
	£m	£m	£m	£m	£m	£m
Arsenal	100.4	33.8	103.3	21.0	124.8	59.8
Chelsea	70.8	n/a	113.1	n/a	135.6	n/a
Liverpool	59.0	26.4	116.4	31.7	122.6	33.5
Manchester City	43.3	17.1	173.0	19.3	135.4	25.5
Manchester United	90.6	61.2	196.9	45.3	107.7	62.5
Tottenham	41.2	19.8	59.9	22.7	95.3	23.9
Aston Villa	13.8	10.9	27.9	17.8	71.4	27.2
Burnley	6.0	n/a	6.2	n/a	66.6	n/a
Everton	17.9	15.6	26.0	8.3	81.7	20.8
Leicester City	10.7	8.5	20.1	9.8	73.7	21.3
Newcastle United	26.8	33.9	24.9	22.6	77.2	33.7
QPR	8.1	n/a	11.8	n/a	65.9	n/a
Sunderland	10.8	n/a	17.2	n/a	69.1	n/a
WBA	8.0	n/a	10.8	n/a	77.5	n/a
West Ham	19.9	n/a	21.8	n/a	79.0	n/a

Table 4.9: Comparison of revenue streams for a sample of clubs in the EPL 2004 and 2015
(Source: Financial statements of clubs in the EPL 2004 and 2015)

Stadium capacity meant several clubs generated relatively small amounts from matchday including Burnley (average attendance 19,158 (Burnley FC Ltd 2015:3)), Hull City (23,557 (Hull City Tigers 2015:4)) and WBA (25,100 (WBA FC Ltd 2015:3)). Although Aston Villa and Everton could each accommodate around 40,000 supporters (Premier League 2015:550), in recent years both struggled to fill their stadia on a regular basis which represented a large amount of lost revenue.

The amounts earned by Manchester United and Arsenal explain why Manchester City (Manchester City 2014:4), Liverpool (Hunter 2014), Tottenham (Anon 2014) and Chelsea (BBC News 2015) have announced plans to increase the capacities of their stadia. Once completed these developments will significantly increase matchday receipts for the largest six clubs and widen further disparities with the remainder of the EPL. With Chelsea and Tottenham building new stadia there is also the potential to raise revenue from the sale of stadium naming rights.

4.5.2 Commercial

During the period 2011-15 commercial revenue increased by a staggering 75% (calculated from table 4.10). By 2015 commercial amounted to £983 million and made up 29% of aggregate revenue (Table 4.10). However growth was driven by the six largest clubs and in 2015 these received 78% of commercial revenue (Table 4.10). Informant 9 explained, 'Most sponsors now are looking at it globally and looking at so called global brands which are Manchester United, Liverpool, Arsenal and those kinds of clubs. Whereas a club of our size, even in the EPL it was fairly difficult and challenging to attract sponsors' (Informant 9).

A review of table 4.9 indicates that five of the six largest clubs saw huge growth in commercial revenue between 2004-15. Chelsea only started to provide analysis of revenue from 2011 onwards, since when its commercial revenue almost doubled from £63 million (Fordstam Ltd 2012:15).

The introduction of FFP and EPL rules has seen commercial revenue become an increasingly important source of additional funds. In 2015 lucrative commercial contracts worth £197 million made up 50% of Manchester United's revenue (Figure 4.5). This increased further when the new kit supply contract with Adidas commenced in July 2015. Shirt sponsorship and stadium naming agreements with Etihad Airlines meant commercial revenue of £173 million accounted for 49% of Manchester City's turnover (Figure 4.5). The scale of Manchester City's commercial and broadcasting revenue meant that in 2015 matchday amounted to just 12% of revenue (Figure 4.5).

Year	Six largest clubs			Remainder of EPL			Total	
	Commercial revenue £m	As a % of aggregate revenue	As a % of total commercial	Commercial revenue £m	As a % of aggregate revenue	As a % of total commercial	Commercial revenue £m	As a % of aggregate revenue
2011	404.4	31	72	156.7	16	28	561.1	24
2012	478.6	35	75	160.9	16	25	639.5	27
2013	596.0	39	78	164.5	16	22	760.5	30
2014	693.0	38	78	194.1	14	22	887.1	27
2015	762.6	40	78	220.8	15	22	983.4	29

Table 4.10: Breakdown of commercial revenue 2011-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2011-15)

Although there was initially debate about whether the amounts paid by Etihad Airlines for shirt sponsorship and stadium naming rights represented fair market values, Manchester City's recent playing success accompanied by regular participation in the UEFA Champions League has greatly enhanced the club's appeal to sponsors, 'Etihad has gone from something like the 20th largest airline in the world to…fifth or sixth…so would they say it's good value? I think they would and subsequent transactions have meant that no-one has gone back and questioned it' (Informant 6).

Playing success raised the global profiles of the six largest clubs in the EPL enabling them to attract corporate sponsors on a long-term basis, and this has provided them with a significant financial advantage. A review of financial statements showed that in 2015 Aston Villa's commercial revenue of £28 million was the highest amount reported by any club outside the top six (Table 4.9).

4.5.3 Broadcasting

Broadcasting revenue comes from the sale of domestic and overseas broadcasting rights and is shared between clubs as follows:

a) Revenue from the sale of domestic broadcasting rights (currently Sky, BT and BBC)
This is broken down into three elements:

- A basic award, divided equally between all clubs in the EPL which amounted to £22 million per club in 2014-15 (Premier League 2015c).
- A facilities fee that reflects the number of live matches that each club is involved in during a season. In 2014-15 this ranged from £9 million to £22 million (Premier League 2015c).
- A merit payment that reflects each club's final position in the EPL. In 2014-15 Chelsea received £25 million in prize money for winning the EPL. This fell by £1.25 million per league position, with bottom club QPR receiving £1.25 million (Premier League 2015c).

b) Revenue from the sale of overseas broadcasting rights and central commercial revenue

The sale of overseas broadcasting rights by the EPL together with central commercial revenue is divided equally between clubs and in 2014-15 amounted to £28 million and £4 million per club (Premier League 2015c).

c) Parachute payments

To assist financial stability the EPL provides a fixed amount to relegated clubs for a period of up to three years. For example this meant that in 2012-13 Bolton, Blackburn and Wolverhampton who were relegated from the EPL in 2012 each received £16 million made up of £8 million from UK broadcasting and £8 million from overseas broadcasting revenue (Premier League 2013); Blackpool and Birmingham who were relegated in 2011 each received £12 million (Premier League 2013); and Burnley, Hull and Portsmouth who were relegated in 2010 each received £6 million (Premier League 2013).

During 2014-15 Chelsea won the EPL, appeared in 25 matches that were broadcast live on television, and received £99 million from EPL broadcasting agreements (Premier League 2015c). Despite finishing bottom of the EPL, QPR received almost £65 million from broadcasting (Premier League 2015c), a differential of just 1.5 (£99m / £65m).

From Table 4.11 we can see that 59% of broadcasting revenue went to clubs outside the top six; and the scale of the most recent contract meant from 2014 broadcasting amounted to almost three-quarters of revenue earned by these clubs.

The equitable distribution of broadcasting revenue meant the club finishing bottom of the EPL often earned more than the largest clubs in other European leagues,

> 'The differential…between the top club and the bottom club is relatively small so we end with small clubs in an EPL context earning much more than they might expect and bigger clubs perhaps earning less out of the league system; and that what's led to the situation that very, very big clubs in other leagues where the leagues are not as well

off, Celtic, Rangers, Porto, Ajax being good examples, despite having big support are not able to capitalise on this.' (Informant 1)

It also meant clubs had sufficient resources to ensure matches were unpredictable, which in turn made the EPL attractive to global audiences,

> 'The collective element of the PL ensures…that there is more competitiveness and…the possibility of clubs in the PL over-achieving as we saw yesterday with Leicester winning the PL…that is one of the qualities that ensures that the attractiveness and popularity of the PL continues and grows.' (Informant 8)

Year	Six largest clubs			Remainder of EPL			Total	
	Broadcasting revenue £m	As a % of aggregate revenue	As a % of total broadcasting	Broadcasting revenue £m	As a % of aggregate revenue	As a % of total broadcasting	Broadcasting revenue £m	As a % of aggregate revenue
2011	514.9	39	44	658.9	67	56	1,173.8	51
2012	514.2	38	43	672.5	68	57	1,186.7	51
2013	502.6	33	42	681.8	67	58	1,184.4	46
2014	725.2	39	41	1,030.0	73	59	1,755.2	54
2015	721.4	38	41	1,048.4	73	59	1,769.8	53

Table 4.11: Breakdown of broadcasting revenue 2011-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2011-15)

Regular participation in UEFA competition (including the Champions League) provided Manchester United, Arsenal, Chelsea, Liverpool and more recently Tottenham Hotspur and Manchester City with significant additional broadcasting revenue. Even though Manchester City failed to go beyond the group phase of the Champions League in 2011-12, the club received €28 million from UEFA broadcasting agreements (Deloitte 2013:Appendix 19). Remember also that participation in the Champions League increased commercial and matchday revenues, all of which provided these clubs with a financial advantage over rivals in the EPL.

4.5.4 Reliance on broadcasting revenue

A review of financial statements showed that in 2004 broadcasting amounted to more than 50% of revenue for six clubs in the EPL. From figure 4.5 we can see that by 2015 broadcasting made up at least 60% of revenue for every club outside the top six. There was consensus among elite informants that a number of clubs were increasingly reliant on

broadcasting revenue. These were usually clubs that didn't have large stadia and were unable to attract the most lucrative commercial and sponsorship contracts.

> 'Certainly at the lower end of the PL clubs can become reliant on broadcasting revenue. Over the last few years clubs have become more focused on driving revenue in addition to broadcasting rights. However the money that clubs receive centrally from the PL funds the vast majority of the costs of running a club…which are mainly players' costs. Certainly for ourselves the PL income which includes not just broadcasting rights but also prize money, made up around 83% of our total turnover…As you can see it's a huge element of our income.' (Informant 8)

Informant 9 concurred, 'We are a fairly small club in London; our stadium size is about 18,000 capacity…we are very dependent on broadcasting income…We do not have much exposure to generate sponsorship income compared to a bigger club' (Informant 9).

The EPL's 'Symbiotic relationship with pay television' (Informant 4), and increased competition between broadcasters for the rights to show live EPL matches meant informants expected revenue would continue to grow. As a consequence reliance on broadcasting was not considered a problem in the short to medium term,

> 'If a large majority of your revenues are being driven by one revenue source that's obviously a slightly riskier business model. But that itself goes back to the query over whether BSkyB and BT keep fighting among themselves for the auction rights for the UK market and that is more to do with where BSkyB and BT are with their quad play offerings of trying to tie in premium TV with on demand services, with broadband, with phone lines, and with mobile. So long as the premium football rights is the driver, the battering ram for the quad play market, I still think there's quite a lot of value in the EPL product which in turn means auction prices stay at very high levels at least domestically.' (Informant 5)

> 'What they're [the clubs] seeing is exponential rise in media revenues which I can't see declining, not in the short-term with the competition for those rights...What I think it

has done is create unbelievable competition within the EPL, which is why everybody wants it.' (Informant 7)

'Everything has a potential to plateau out at some point. For the foreseeable future we still feel there is growth available internationally to be able to at least maintain if not increase these revenues.' (Informant 4)

It was also recognised that the EPL had benefited from recent developments in the way individuals accessed communication media,

'It's far more digital, media, commercial rights now than someone coming through the turnstiles and buying a programme…People want instant access and the EPL can give them that. So it's fulfilling its own delivery in that it's a media product. It's benefiting from this moment in time really.' (Informant 3)

Since growth in wages and transfer fees was driven by broadcasting revenue, it was reasoned that any decline in this would be accompanied by a corresponding fall in players' costs, 'The [broadcasting] deals are structured over a three-year period so that really marries in with what player contracts are' (Informant 3). Informant 6 concurred and explained,

'The EPL has historically continued to spend what revenue they are getting…So actually there is just a correlation between that increase in broadcasting revenue and expenditure on purchasing players and wages. So if that broadcasting revenue came down, I think there'd be a similar reduction in wage costs and the cost of players…Where over reliance does come in is where clubs get relegated…Those parachute payments go away so it can be a real issue for them.' (Informant 6)

Only Informant 1 expressed concern that at some point changes in the external business environment might adversely impact on broadcasting revenue,

'So should there be a shock to the market, whether that's trends, tastes, whether that's technological, whether it's legal…at that point that over reliance on broadcasting income I think spells problems.' (Informant 1)

4.5.5 Collective negotiation of broadcasting contracts

Although our quantitative analysis highlighted disparities in revenue, informants preferred to focus on the collective negotiation and equitable distribution of broadcasting revenue which they believed provided the financial resources necessary to ensure clubs remained competitive.

> 'I think it is about that collective competition and the way it's been set up and the way broadcasting rights are split in such a way that there is sufficient funding going into even the lower level clubs, that they can get some quality players or can get collectively a high-quality team…I don't think those disparities in revenue will make a lot of difference because for the last 10 years or so the EPL has been fantastic competition and that disparity has been there.' (Informant 6)

The competitiveness of EPL matches helped attract a global audience and meant broadcasters continued to offer lucrative contracts for the right to televise live matches.

> 'There's always going to be disparities in the marketability of clubs for their commercial offering, and some will have a regional, local offering and footprint and others will have global. That's just to do with success on the pitch which then drives all of those markers. I think that at the moment because there is a disproportionate amount of revenue which makes up each club's total revenue which is distributed through the central distributions, you have the EPL as a very attractive place for…elite players that participate for top teams in other countries, coming to mid-level EPL teams and being offered more money. So…clubs can still afford quite big transfer fees and wages, which still provide at least that semblance of competitive balance.' (Informant 5)

> 'It is an exciting league, particularly this year. With the new media rights coming in, if they keep the financial distribution like it is at the moment, it will be even more competitive.' (Informant 3)

It was also recognised that the way in which revenue from domestic broadcasting was distributed rewarded both playing success (through merit payments) and those clubs that appeared most often on television (facilities fee),

> 'One of the great strengths of the EPL is the way funds are shared amongst clubs. There is something for everyone…the bigger clubs get a bigger share partly because 50% is distributed depending how many times you are on television…and where you finish in the league. So the so called bigger clubs that have traditionally finished higher in the league tend to get a bigger portion of the UK broadcasting revenue; the rest benefit from the fact that everything else is split equally. So in a sense if the big clubs turn around and say we want more of the pot overall, the smaller clubs can say you're already getting more because of the way UK broadcasting is split.' (Informant 4)

Ultimately the most important factor was how effectively clubs used broadcasting and other revenue,

> 'It comes down to how you spend the money and a lot of clubs including us in the last few years have spent money badly. You have to remember that media income is almost 100% margin. That's the equalisation between clubs and it's how you spend that money…Your recruitment policy delivers a successful club.' (Informant 3)

With so much reliance on broadcasting revenue, elite informants were asked whether they were concerned the largest clubs in the EPL might seek to negotiate broadcasting contracts on an individual basis. Whilst it was acknowledged that clubs did occasionally discuss the distribution of broadcasting revenue, informants thought it unlikely the largest clubs would seek to negotiate on an individual basis,

> 'In a sense the very strong glue within the founding members agreement on sharing revenue doesn't mean that from time to time clubs don't have a problem and say how about doing it another way, but frankly in the time I've been here we've had many debates about this, but everyone comes around to the idea "leave everything as it is." The revenue share agreement absolutely encourages competition and at the end of

the day makes the EPL a much more attractive proposition…and that benefits everyone.' (Informant 4)

'I definitely don't think that will happen in the EPL because they're extremely protective of the overall brand, and I think they recognise that the ability to attract the levels of broadcasting income is because they are collectively negotiating…I think that if they fragment it, the level of income will reduce.' (Informant 6)

'I think it will always be collective bargaining by the EPL and for me that's the best way forward, that's the best model…Increased competitiveness will keep the EPL exciting which will keep future broadcasting revenue high.' (Informant 9)

Despite this it was recognised that domestic broadcasting revenue might at some point be allocated using a different formula, 'You could bargain collectively and then outside of that…have a bigger differential for finishing 1st, 2nd and 3rd' (Informant 6).

Liverpool had publicly raised the issue of changing the way in which overseas broadcasting revenue was distributed,

'What Ayre [CEO, Liverpool]…said was that he thought the overseas money should be split according to performance.' (Informant 5)

'When Liverpool said people are paying to watch Liverpool not Bolton, we had an EPL meeting about a month later; it was a frosty meeting.' (Informant 3)

It was acknowledged that at some point overseas broadcasting might be distributed in a different way,

'The international rights are absolutely equal because back in 1992 no-one ever expected international rights to be of this size…everyone realises that with the size of the new media deal every club in the EPL will be in the top 30 in Europe. It's going to be a big issue for some of the bigger clubs and I get a feeling that maybe some of them will be flexing their weight and saying we want a different distribution and the easiest

way would be to say let's have a look at the international rights and distribute those in a different way. I think that might come.' (Informant 3)

However it was reasoned that overseas broadcasting revenue had grown partly because EPL matches remained competitive,

'Overseas broadcasting revenue is split evenly between PL clubs…and I think that's only right…some of the bigger clubs have a view that the international broadcasting rights bring in so much money because of the top clubs. But I also think there is the unpredictability of the PL where anybody can beat anybody generally. I think that adds to the popularity of the league.' (Informant 8)

4.5.6 Analysis of the spread of revenue by category

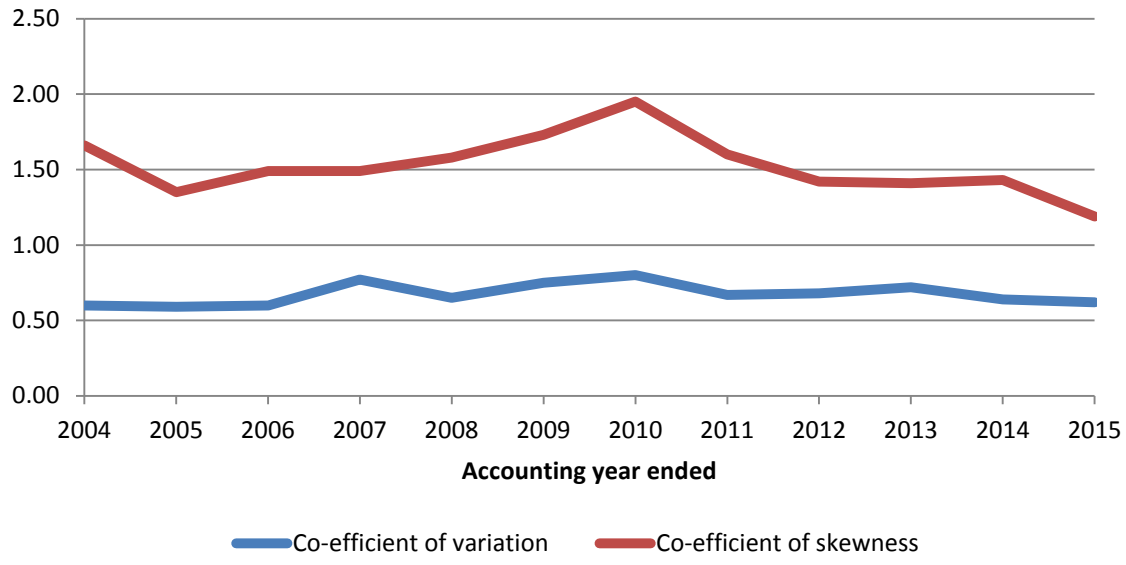
In 2004 only Arsenal, Chelsea and Manchester United reported revenues in excess of £100 million (Arsenal Holdings plc 2005:27, Chelsea Ltd 2005:5, Manchester United plc 2005:4); by 2015 fourteen clubs in the EPL reported revenues in excess of £100 million (Observed from financial statements of clubs in the EPL 2015). Over the same period average revenue increased from £68 million to £168 million, however the standard deviation increased from £41 million to £104 million (Table 4.5) indicating the wide spread of revenue in monetary terms.

To allow analysis of the spread of data in relative terms the co-efficient of variation was calculated for aggregate revenue in each year during the period 2004-15 (using the formula standard deviation / average revenue (Waters 2011:155)), and for matchday, commercial and broadcasting revenue over the period 2011-15. It was only from 2011 that published financial statements for all clubs in the EPL provided a breakdown of revenue between matchday, commercial and broadcasting.

The co-efficient of variation (Figure 4.6) confirmed the wide spread of revenue between clubs in the EPL. Further analysis (Table 4.12) showed that commercial had the widest spread of values, which was consistent with the preceding analysis and reflected growth in commercial revenue for the largest clubs in the EPL. The co-efficient of variation for

broadcasting revenue was much smaller and declined from 2014, reflecting the impact of the broadcasting contract that commenced in August 2013 and the equitable way in which this was distributed between clubs. The scale of broadcasting meant the spread of aggregate revenue also reduced slightly from a peak of 0.72 in 2013 to 0.62 in 2015 (Table 4.12).

Figure 4.6: Coefficients of variation and skewness for total revenue of clubs in the EPL 2004-15 (Source: Calculated from financial statements of clubs in the EPL 2004-15)



This supported earlier findings that many clubs in the EPL were very reliant on broadcasting revenue. It also suggested that the way in which broadcasting was distributed provided the resources necessary to ensure all clubs were competitive.

Using the same data the co-efficient of skewness was also calculated (using the formula [3(mean-median)]/ standard deviation (Waters 2011:156)). This indicated the distribution of revenue about the average for each year. The high positive co-efficient of skewness showed that average revenue was higher than the median and there was a long tail to the right. This can be seen clearly in figure 4.3 where in each year, just six clubs earned revenue above the average. From table 4.12 we can see that broadcasting had the lowest co-efficient of

skewness and this declined following commencement of the broadcasting contract in August 2013, reflecting its equitable distribution.

	Co-efficient of variation				Co-efficient of skewness			
Year	**Aggregate Revenue**	**Matchday**	**Commercial**	**Broadcasting**	**Aggregate Revenue**	**Matchday**	**Commercial**	**Broadcasting**
2011	0.67	1.12	1.00	0.35	1.60	1.97	1.41	1.63
2012	0.68	1.15	1.10	0.34	1.42	1.81	1.62	1.54
2013	0.72	1.02	1.19	0.32	1.41	1.78	1.59	1.54
2014	0.64	0.99	1.22	0.28	1.43	1.64	1.69	1.25
2015	0.62	0.96	1.16	0.26	1.19	1.46	1.53	1.04

Table 4.12: Spread of revenue by category 2011-15
(Source: Calculated from financial statements of clubs in the EPL 2011-15)

Reliance on broadcasting is not a problem as long as clubs remain in the EPL; broadcasters continue to pay large amounts for the rights to televise live EPL matches; and the EPL continues to negotiate broadcasting agreements collectively. If in the future the largest and most successful clubs decide to negotiate individual broadcasting contracts, the preceding analysis together with evidence from Spain and Italy suggests it will be the smaller, less fashionable clubs that lose out (Ascari and Gagnepain 2006:80, Baroncelli and Lago 2006:18, Bosca et al 2008:173). This would further widen disparities in revenue and might threaten the survival of some clubs.

The two most recent domestic broadcasting contracts have each grown by 70% (Gibson 2015). Given recent financial problems reported by BT and Sky, it seems unlikely increases of this magnitude will continue. In January 2017 BT announced that incorrect accounting practises over a four-year period meant profits in its Italian business had been overstated by up to £530 million (Dean 2017). The resultant profit warning saw the company's market value immediately fall by £7.2 billion (19%) (Dean 2017). This followed news in May 2016 that the company's pension deficit had increased to £10.6 billion (Palmer 2017). In the nine months ended March 2017 Sky reported that operating profits of £1 billion were 14% lower than the same period in 2016, and this was blamed on the increased cost of the most recent EPL broadcasting contract (Bond 2017).

Growth in revenue and the global profile of the EPL attracted wealthy investors and during the 2014-15 season 55% of clubs were under foreign ownership (UEFA 2015a:54). The preceding analysis showed that revenue was closely linked to sporting success. The merit award meant 25% of domestic broadcasting revenue related to a club's final league position. The most successful clubs were likely to appear most often in televised matches which earned a higher facilities fee, and they received additional revenue from participation in European club competitions. Even though clubs relegated from the EPL received parachute payments, the huge differential between the EPL and EFL meant a significant decline in revenue. These factors encouraged wealthy owners to invest heavily in pursuit of sporting success. Often wealthy owners provided their clubs with a soft budget constraint, which meant other clubs were forced to spend a rising percentage of revenue on players' costs in order to remain competitive. The next section will examine why clubs were unable to turn growth in revenue into profit.

4.6 Overview of financial performance

Table 4.13 summarises aggregated accounting information for the EPL during the period 2004-15. Although revenue more than doubled it was only after 2013 that clubs were able to turn this into pre-tax profit. PFO fluctuated and by 2013 was just £16 million higher than in 2004. Of further concern was that a Loss From Operations (LFO) was reported by 36% of financial statements published during the period 2004-13 (Table 4.14). In aggregate terms the EPL reported a LBIT in each year up to 2013, and interest payable on debt worsened losses (Table 4.13).

From figure 4.7 it is evident that until 2013 growth in aggregate revenue was usually accompanied by an even greater increase in wages and amortisation. These results suggested owners were primarily interested in playing success, and several provided their clubs with the funds necessary to attain this objective. As we have already established the domestic broadcasting contract from August 2013 saw significant growth in revenue, and stronger financial regulation by UEFA and the EPL meant this was accompanied by better control of costs which enabled clubs to report aggregate profits in 2014 and 2015.

Year	Revenue	Profit from operations	PBIT / (LBIT)	Profit / (Loss) before tax	Total debt	Hard debt	Equity
	£m	£m	£m	£m	£m	£m	£m
2004	1,364.4	126.0	(118.0)	(36.4)	(1,017.5)	(526.9)	271.3
2005	1,343.0	154.2	(45.3)	(77.8)	(1,350.9)	(975.1)	103.1
2006	1,369.3	98.3	(108.0)	(185.8)	(1,917.7)	(1,491.2)	237.7
2007	1,510.2	83.5	(92.9)	(220.7)	(2,515.2)	(1,503.7)	110.3
2008	1,920.0	115.6	(55.1)	(188.5)	(2,887.3)	(1,562.1)	(46.5)
2009	1,974.6	69.5	(48.4)	(171.8)	(3,073.9)	(1,421.3)	(127.0)
2010	2,118.8	68.2	(206.0)	(384.8)	(2,644.6)	(1,216.1)	564.8
2011	2,296.9	31.8	(273.1)	(355.1)	(2,768.9)	(1,094.6)	465.0
2012	2,346.4	98.6	(126.6)	(202.9)	(2,592.3)	(1,041.3)	712.9
2013	2,549.1	142.1	(170.9)	(285.8)	(2,818.5)	(1,025.4)	536.9
2014	3,249.4	604.0	266.6	196.4	(2,751.2)	(924.8)	1,047.2
2015	3,354.9	542.8	200.5	113.7	(2,915.1)	(1,041.7)	1,281.7

Table 4.13: Summary of aggregated accounting information for clubs in the EPL 2004-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

Since the FFP monitoring period for 2013-14 considered accounting periods ended in 2012 and 2013, it is surprising that clubs in the EPL continued to report aggregate losses in these years. However it should be remembered that reported profit differs to the adjusted profit used by UEFA to monitor break-even. In addition for 2013-14 and 2014-15 sanctions were not imposed for exceeding the acceptable deviation where this was due to players' contracts entered into before 1 June 2010, or where cumulative losses were declining (UEFA 2012:87). This enabled clubs to gradually move towards compliance with FFP.

Traditionally football clubs in England were medium sized organisations that had relatively few shares in issue and made small profits or losses each year. Growth in revenue and players' costs since 1992 meant the scale of operations had changed beyond recognition. However for several clubs' shareholders' equity had not increased sufficiently and cumulative losses further eroded this.

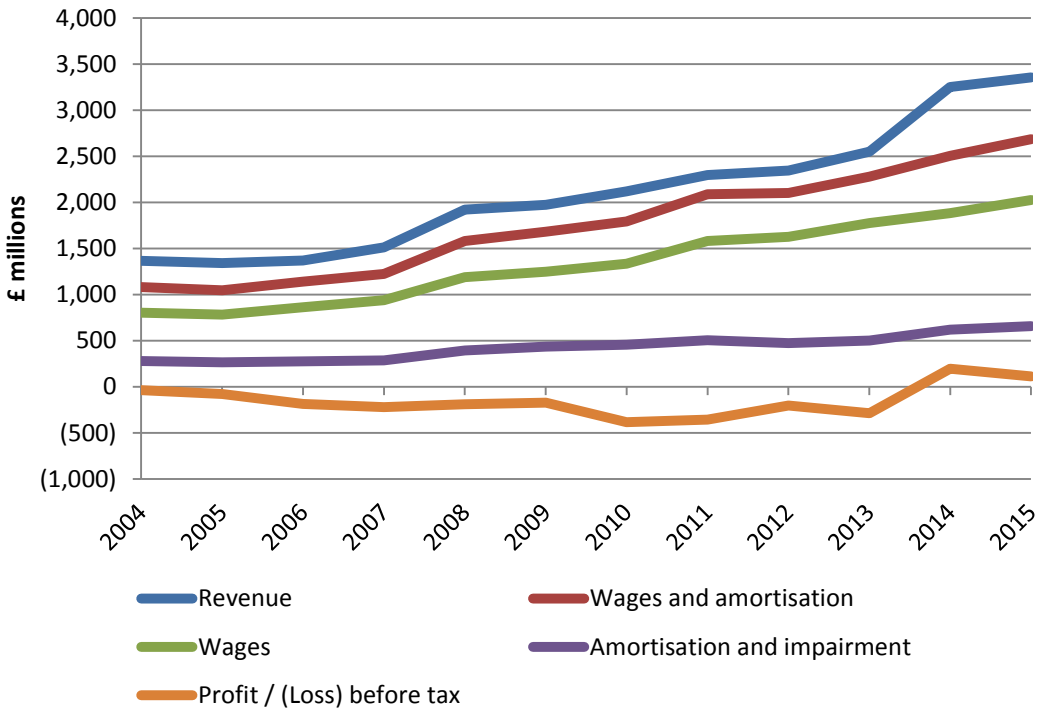
Year	Loss from operations		Negative Equity		No. of clubs with wages / revenue ratio > 70%	No. of clubs where debt > revenue
	No. of clubs	%	No. of clubs	%		
2004	5	25	8	40	5	6
2005	3	15	7	35	3	6
2006	5	25	10	50	6	7
2007	10	50	10	50	10	11
2008	7	35	11	55	7	10
2009 (i)	10	53	12	63	10	11
2010 (i)	9	47	11	58	10	7
2011	8	40	10	50	12	9
2012	9	45	9	45	12	7
2013	6	30	12	60	11	6
Total 2004-13	**72**	**36**	**100**	**51**	**86**	**80**
2014	1	5	10	50	2	3
2015	3	15	7	35	5	5
Total	**76**	**32**	**117**	**49**	**93**	**88**

Table 4.14: Summary of key financial indicators for clubs in the EPL 2004-15
Note:
(i) Excludes Portsmouth
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

In 2008 and 2009 aggregate equity was negative (Table 4.13) indicating that liabilities exceeded assets (by £47 million and £127 million) and several clubs were wholly reliant on continued support from banks and other lenders. From table 4.14 we can see that during the period under review, 49% of financial statements published by clubs showed negative equity.

New issues of share capital combined with retained earnings meant by 2015 aggregate equity was £1.3 billion (Table 4.13). However analysis of financial statements showed seven clubs in the EPL continued to operate with negative equity (Table 4.14) and this ranged from £19 million at Everton (Everton FC Ltd 2015:66) to £698 million at Chelsea (Fordstam Ltd 2015:10).

Figure 4.7: Key aggregated accounting variables for the EPL 2004-15 (Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)



From table 4.13 we can see that although total debt increased from just over £1 billion to £2.9 billion, a significant proportion was soft debt provided by owners and related parties. By 2015 hard debt amounted to just over £1 billion.

4.6.1 The need for increased financial regulation

Poor financial performance was not unique to the EPL. Although in 2010 the 734 clubs playing in Europe's top divisions generated aggregate revenue of €12.8 billion (UEFA 2011:16), 61% reported losses from operations, and pre-tax losses amounted to €1.64 billion (UEFA 2011:18). Most worrying was that one in eight auditors' reports raised concerns about whether clubs had the financial resources necessary to remain in operation for the next 12 months (UEFA 2011:18).

It could therefore be argued that UEFA and the EPL were slow to introduce stronger financial regulation, 'In 1999 there wasn't even a requirement for [EPL] clubs to submit their annual

accounts' (Informant 4). From 2004 UEFA introduced licensing for clubs that wanted to compete in the Champions and Europa Leagues (Lago et al 2006:10),

> 'When licensing was first introduced across Europe it really had very little in it apart from requiring clubs to prepare audited accounts and submit them, and for the licensor to ensure that there was no overdue debt. It was very basic, but it was a start…Over the years UEFA developed the licensing rules a little bit further…so if for example your auditor's report carried a qualification of some sort, or if there was an increase in net liabilities then you had to provide evidence that you had enough finances.' (Informant 4)

Declining financial performance led to the introduction of FFP which sought 'Sustainability of the entire football sector…balancing revenues with expenses and…boosting investments for the long-term health of the game' (UEFA 2011:3). Although not all elite informants were in favour of increased financial regulation they could appreciate the rationale that underpinned this,

> 'In too many cases those losses were to the extent…that it actually threatened and, in some cases, led to the unsustainability, the insolvency of clubs not just here in England but around Europe as well. And so the rules are a way of helping the clubs to help themselves, their own behaviours, and the market…What this intervention has enabled is that more clubs are able to get a better balance between the revenues they achieve and the levels of costs that they incur.' (Informant 2)

It was recognised that even those clubs supported by wealthy owners might get into financial difficulties,

> 'Ultimately it seems the right thing to do, to restrict football clubs from making huge losses. Even now, outside the PL we're seeing with Bolton Wanderers just this year for example…If the owner decides to stop putting money in, the football club is really in trouble and FFP rules are there to try to reduce the risk of that happening.' (Informant 8)

Given the poor financial state of European club football UEFA recognised that requiring clubs to immediately break-even was not a realistic proposition. However the inclusion of an acceptable deviation was criticised by some, 'I think it's…astonishing…when there's a rule called FFP and you're still allowing clubs to make huge losses' (Informant 8).

Year	Number of clubs in each category				
	Profit making clubs (PBIT)	Loss making clubs (LBIT)	Clubs with a 'sugar daddy'		EPL Total
			PBIT	LBIT	
2004	11	9	1	2	20
2005	14	6	1	2	20
2006	8	12	1	4	20
2007	7	13	0	6	20
2008	10	10	1	7	20
2009 (i)	7	12	0	10	19
2010 (i)	6	13	0	8	19
2011	8	12	1	7	20
2012	9	11	1	8	20
2013	10	10	1	7	20
2014	15	5	3	5	20
2015	15	5	4	4	20

Table 4.15: Number of clubs in each category 2004-15
(i) Excludes Portsmouth
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

4.7 Financial analysis and results

The next section will identify and examine the most worrying aspects of financial performance and evaluate whether this improved following increased regulation by UEFA and the EPL. As explained in the data collection section in order to facilitate analysis of financial performance, for each year clubs were broken down into two groups comprised of those that reported a PBIT and those that reported a LBIT. Aggregate ratios were also calculated for those clubs owned and funded by a wealthy benefactor (or 'sugar daddy'). Table 4.15 shows the number of clubs in each category for every year under review, and clearly indicates that the number of clubs reporting a PBIT increased after 2012.

4.8 Profitability and Control of costs

4.8.1 Wages as a percentage of revenue

Wages was the largest regular cost incurred by clubs in the EPL and in aggregate terms expenditure more than doubled from £802 million in 2004 to £1.8 billion in 2013 (Figure 4.7). Expressing wages as a percentage of revenue showed the scale of growth. Between 2004-13 expenditure on wages increased from 59% to 70% of aggregate revenue (Table 4.16). Deloitte (2010) suggested thresholds as '55% for effective cost management, 70% as a warning level and 100% as a stark danger level' (2010:37) and explained that where this ratio exceeded 70% clubs 'Were likely to require funding outside of their revenue to sustain their operations' (Deloitte 2013:44).

Year	Wages as a % of revenue				Pearson's coefficient of correlation	Coefficient of determination
	Profit making clubs	Loss making clubs	Clubs with a 'sugar daddy'	EPL Aggregate		
	%	%	%	%	r	r^2
2004	52	67	76	59	0.78	0.61
2005	53	72	73	58	0.87	0.76
2006	57	67	73	63	0.84	0.71
2007	48	74	76	62	0.81	0.66
2008	53	74	76	62	0.81	0.66
2009	48	76	80	63	0.83	0.68
2010	43	78	85	63	0.87	0.75
2011	53	83	87	69	0.89	0.80
2012	60	77	79	69	0.82	0.66
2013	61	79	84	70	0.83	0.69
2014	56	63	61	58	0.80	0.63
2015	57	71	66	60	0.88	0.78

Table 4.16: Wages as a % of revenue split by category of club and the relationship between expenditure on wages and EPL points attained 2004-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

From table 4.16 we can see that breaking down this ratio showed that clubs supported by sugar daddies spent a significantly higher proportion of revenue on wages. This suggested that sugar daddies were prepared to spend heavily in pursuit of playing success.

Discussions with elite informants ascertained that wages as a percentage of revenue was widely used by clubs to control costs, 'It's not complicated to run a PL football club because the key numbers are so big and so significant that ultimately if you control your wage costs and drive your turnover then you're going to increase your profitability' (Informant 8). However there were differing opinions on what this ratio should be,

> 'Really you should be working towards 50-60% wages to revenue. That's generally acceptable as a basic norm.' (Informant 7)
>
> Generally we ran around 82% salary to turnover level, which is quite high. Ideally we'd look to try to get down to around 70% which we…did manage in 2012.' (Informant 8)
>
> 'Key indicators are wages to revenue, but the underlying scenario is controlling costs overall and ensuring that we are at break-even.' (Informant 9)

Despite the importance of this ratio Informant 3 had a different outlook and explained 'I don't really use wages / revenue because as revenue increases the overheads stay the same, and we use the increased revenue for wages and transfer fees' (Informant 3). Informant 3's club was not supported by a wealthy owner and reported a PBIT in each year that it played in the EPL. Using growth in revenue to fund increased players' costs provided further evidence that playing success was prioritised above financial return.

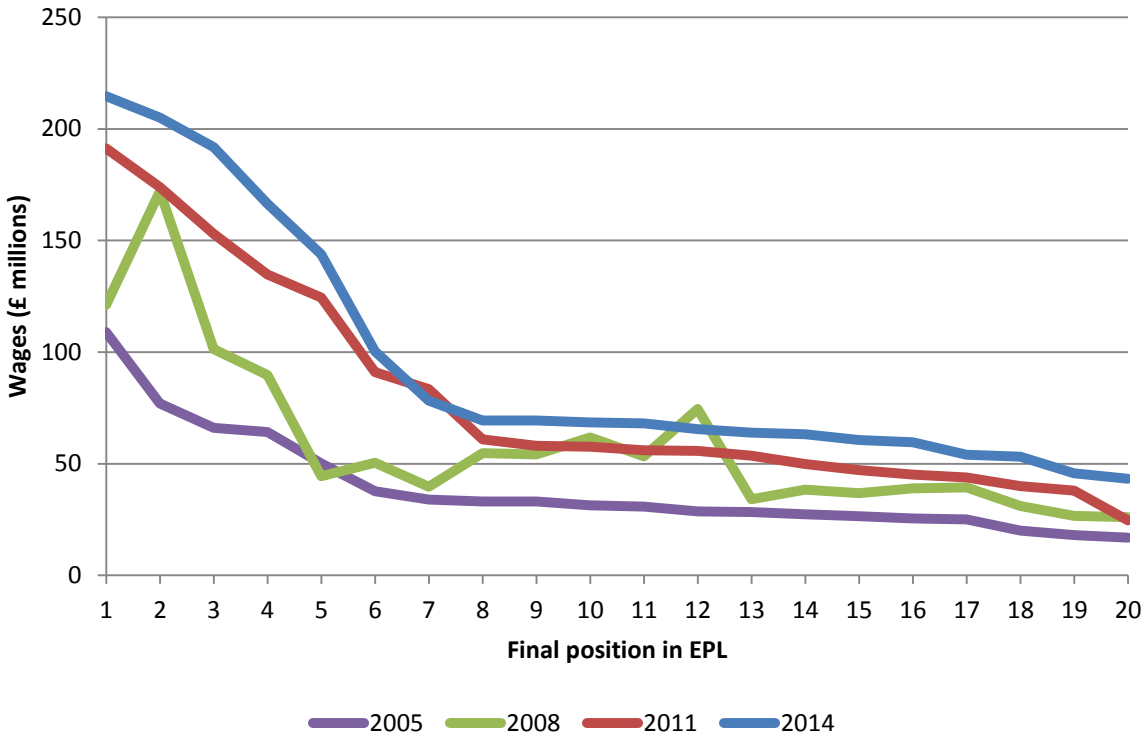
The player acquisition strategy employed by a club also impacted on this ratio. Although players acquired on free transfers were often paid higher wages, the duration of contracts was usually shorter which offered clubs greater flexibility,

> 'We've taken Bosmans [players on free transfers] but we'll pay higher wages than perhaps other clubs. If you've paid no transfer fee and at the end of his contact that player moves on, there's no loss…When you buy a player the average contract is three to four years, on a Bosman it can be two or one.' (Informant 3)

Wherever possible clubs tried to include clauses in players' contracts so that wages decreased following relegation from the EPL, 'Playing and coaching staff do have

contingencies built into their contracts…so that in the event of relegation costs can be controlled' (Informant 9). Alternatively players were rewarded if their club remained in the EPL, 'We have player bonus scheme which is only paid if we stay up. It is becoming more the norm' (Informant 3).

Figure 4.8: Expenditure on wages and final league position for EPL clubs in the accounting period immediately following each new broadcasting contract 2005-14 (Source: Calculated from financial statements of clubs in EPL 2005, 2008, 2011 and 2014)



However these types of clause weren't always easy to implement and those clubs that tried to be financially prudent were sometimes at a disadvantage when negotiating with players,

> 'If you're in the EPL signing a player there'll be an EPL rate, it will be a much lower rate that you'll want to pay him in the Championship, but the player will have a number of offers from various other clubs who might be happy not to have a Championship rate in their contract, so where's he going to go?' (Informant 1)

> ‘In the past we have lost players because they wouldn’t accept a step-down clause.’ (Informant 3)
>
> ‘It’s hard because when you’re attracting some of the top players, there’s no way they’d accept those clauses.’ (Informant 6)

The introduction of FFP enhanced the importance of this ratio since UEFA can request additional financial information from a club where wages amount to more than 70% of revenue (UEFA 2015:39). During the period 2004-13, 86 out of 198 financial statements (43%) published by clubs in the EPL showed wages / revenue ratios above 70% (Table 4.14); of these 73% also reported losses from operations (Calculated from financial statements of clubs in the EPL 2004-13).

It is clear from table 4.16 why clubs spend so heavily on wages. Analysis for each year showed a strong linear relationship between playing success measured in terms of points attained by each club in the EPL, and expenditure on wages (Table 4.16). Further analysis focused on the period 2011-15, and a coefficient of correlation of 0.83 confirmed the strong relationship between points attained and expenditure on wages.

Figure 4.8 graphically illustrates the close relationship between expenditure on wages and final league position attained by each club, with those clubs that spent the smallest amounts usually struggling to remain in the EPL. Each year is the first accounting period immediately following a new broadcasting contract, and we can clearly see the growth in wages that accompanied this.

Although both average wages and standard deviation increased significantly in monetary terms, the coefficients of variation and skewness indicated that the spread of data around the average improved slightly and the distribution became less skewed following the introduction of FFP and STCC (Table 4.17). Stricter regulation forced those clubs supported by wealthy benefactors to improve control of players’ wages; and analysis of wages / revenue ratios showed significant improvement for most clubs in 2014 and 2015 (Table 4.16).

Year	Aggregate wages	Average wages (a)	Standard Deviation (b)	Coefficient of variation (b/a)	Coefficient of skewness
	£m	£m	£m		
2005	786.6	39.1	22.6	0.58	1.83
2008	1,188.7	59.4	35.8	0.60	1.90
2011	1,582.1	79.1	47.8	0.60	1.20
2014	1,884.7	94.2	54.8	0.58	1.29
2015	2,027.3	101.4	55.9	0.55	1.11

Table 4.17: Coefficients of variation and skewness for wages 2005-15
(Source: Calculated from financial statements of clubs in the EPL 2005, 2008, 2011, 2014, 2015)

Since FFP applied only to those clubs playing in UEFA competitions the EPL recognised, 'The get out…is for clubs that say, "I don't think I'll be playing in Europe, so why should I apply for a license?"' (Informant 4). This prompted the EPL to strengthen its own financial regulations through STCC and there was consensus that restricting growth in wages in this way was beneficial,

> 'What they did that I think was good and quite clever was that they effectively said…you can't increase your overall wage costs by say more than £4 million, unless you are bringing in the commercial revenues…to cover that uplift. The EPL rules came in fairly quietly; I've not seen a lot of kickback from EPL clubs.' (Informant 6)

> 'Short term cost control is probably a sensible thing…because that is…trying to avoid all the incremental TV revenues going to the players…So I can understand those regulations more than the very strict break-even interpretation of UEFA.' (Informant 7)

Although aggregate wages exceeded £2 billion in 2015 (Figure 4.7), the introduction of FFP and STCC meant control of wages improved noticeably after 2013 with just seven out of 40 financial statements (18%) reporting a wages / revenue ratio above 70% (Table 4.14).

4.8.2 Amortisation as a percentage of revenue

Amortisation (and impairment) remained at around 20% of aggregate revenue throughout the period (Table 4.18), however in monetary terms it increased from £279 million in 2004 to over £657 million in 2015 (Figure 4.7) reflecting the rising cost of players' registrations.

Year	Amortisation as a % of revenue			
	Profit making clubs	Loss making clubs	Clubs with a 'sugar daddy'	EPL Aggregate
	%	%	%	%
2004	14	28	37	20
2005	15	33	42	20
2006	12	25	33	20
2007	12	25	29	19
2008	17	25	28	20
2009	15	28	28	22
2010	12	29	32	22
2011	14	30	34	22
2012	14	25	26	20
2013	14	26	27	20
2014	17	24	24	19
2015	19	22	20	20

Table 4.18: Amortisation as a % of revenue split by category of club 2004-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

Breaking down this ratio by category again showed significant differences in performance, with those clubs that reported a PBIT demonstrating consistently tighter control of costs throughout the period.

4.8.3 Wages and amortisation as a percentage of revenue

Combining wages and amortisation went a long way towards explaining why EPL clubs generated an aggregate LBIT in every year between 2004 and 2013. It also showed why governing bodies were keen to introduce stricter financial regulation.

In monetary terms aggregate expenditure on wages and amortisation increased from £1.1 billion in 2004 to £2.3 billion in 2013 (Figure 4.7). Expressing this as a ratio showed that in 2004 expenditure on wages and amortisation amounted to 79% of aggregate revenue (Table 4.19). Poor control of these costs meant in 2013 for every £100 generated in revenue, clubs spent £90 on wages and amortisation leaving little to cover other costs or generate a return on investment. This was largely driven by those clubs supported by sugar daddies; in every year from 2004-13 aggregate expenditure on wages and amortisation by these clubs exceeded revenue (Table 4.19). Any other expenses simply worsened losses. Such poor control of costs was not sustainable without a soft budget constraint in the form of regular

injections of cash from wealthy backers. It also confirmed that throughout this period wealthy owners spent heavily in pursuit of playing success.

Year	Wages and amortisation as a % of revenue			
	Profit making clubs	Loss making clubs	Clubs with a 'sugar daddy'	EPL Aggregate
	%	%	%	%
2004	66	95	113	79
2005	68	105	115	78
2006	69	92	106	83
2007	60	99	105	81
2008	70	99	104	82
2009	63	104	108	85
2010	55	107	117	85
2011	67	113	121	91
2012	74	102	105	89
2013	75	105	111	90
2014	73	87	85	77
2015	76	93	86	80

Table 4.19: Wages and amortisation as a % of revenue split by category of club 2004-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

Further analysis of financial statements showed the large amounts these clubs were spending. In 2010 Manchester City's wages and amortisation was 164% of revenue, and of the remaining seven clubs in this category only Fulham (97%) had a ratio below 100%. Despite the introduction of FFP, in 2013 six of the eight clubs funded by wealthy owners reported expenditure on wages and amortisation that exceeded revenue, including QPR (157%), Stoke City (130%) and Aston Villa (123%).

By way of comparison, in 2013 nine of the 10 clubs that reported a PBIT had ratios significantly below the EPL aggregate of 90%, though only Manchester United (61%) was below 70%.

The soft budget constraint provided by wealthy owners meant their clubs were often forced to pay inflated wages and transfer fees, 'Manchester City saw that when they went for a

player suddenly there was a 40-50% premium on the price of that player' (Informant 6). It was argued this placed upward pressure on players' costs for all clubs in the EPL,

> 'Certainly when you are trying to buy players as a PL club everyone knows the financial power that clubs have and all of a sudden players become more expensive.' (Informant 8)

> 'I think the major problem for other clubs is the wage inflation it creates. If you have a player on £100,000 a week at a top club, you might get a basic EPL player saying "Hang on, if he's worth £100,000 I must be worth at least £30-40,000"…So it does create a lot of tension and wage inflation with other clubs.' (Informant 7)

> 'The other downside of a club making losses is spending more and therefore forcing others to spend more to keep up with them.' (Informant 4)

This agreed with the findings of Andreff (2007), Storm (2012), Franck (2013) and Morrow (2013) of an 'arms race' in European football, with many clubs in the EPL using growth in revenue to fund expenditure on short-term investment in players' costs.

Although several elite informants favoured a free market approach and were critical that increased regulation would restrict investment by wealthy owners, their argument ignored that,

> 'Clubs…subsidised by benefactor owners are continually ramping up the price for players and wages. Free market economists may say "That's just the free market." My argument is…it's a distorted market because the incentives of profit maximising businesses are completely disrupted by those of success maximisers. Until some type of regulations were brought into force which effectively curbed that spending…then that spiral would have just continued' (Informant 5)

Figure 4.9: Wages and amortisation as a % of revenue by category of club 2004-15 (Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

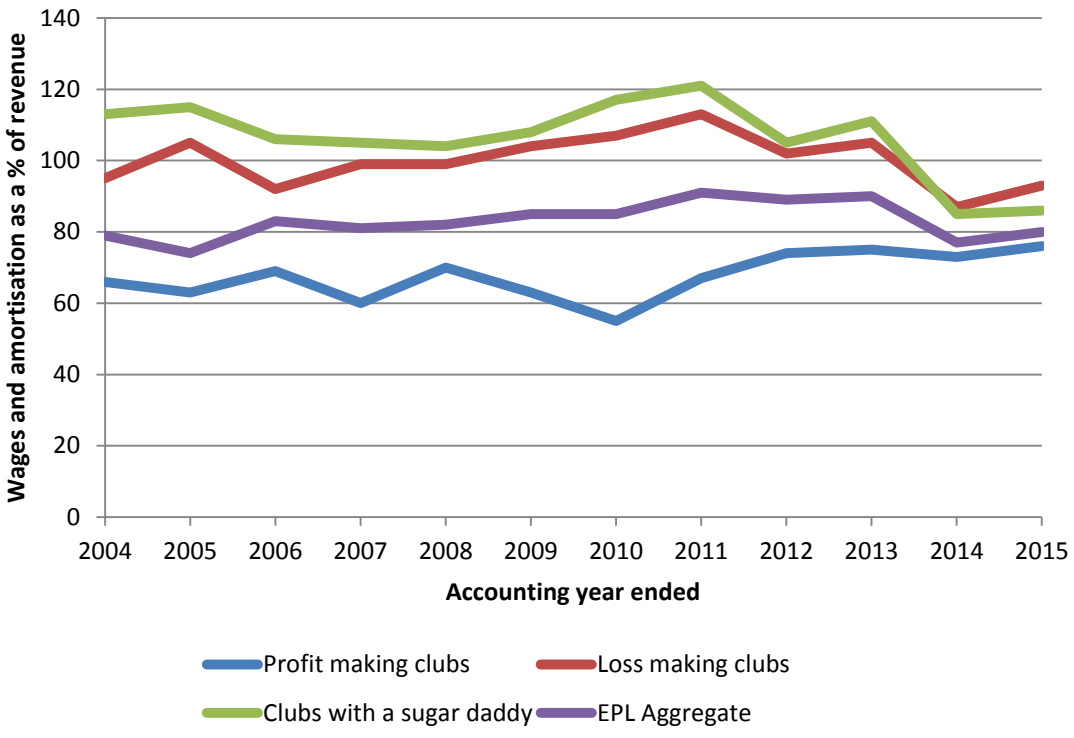


Figure 4.9 clearly illustrates differences in control of wages and amortisation by each category, and that clubs supported by sugar daddies showed better control of expenditure following the introduction of stricter regulation and growth in broadcasting revenue after 2013.

4.8.4 Profit from operations as a percentage of revenue

Failure to control wages meant PFO as a percentage of revenue remained low during 2004-13 (Table 4.20). Although consistently higher than the EPL aggregate, profit making clubs saw a decline in this ratio from 22% in 2004 to 14% in 2013 which corresponded with growth in wages during this period.

Clubs backed by sugar daddies made an aggregate LFO in every year between 2004 and 2013 and this adversely impacted on amounts reported by clubs in the loss-making category. Analysis of QPR's 2013 financial statements clearly demonstrated this poor

control of costs. The club's wages of £78 million (QPR Holdings 2013:13) exceeded revenue (£61 million) and contributed towards a LFO of £49 million (2013:7). QPR was relegated from the EPL in 2013 and its continued operation was reliant on interest free loans of £166 million from owner Tony Fernandes (2013:16).

Year	Profit / (Loss) from operations as a % of revenue				Pearson's coefficient of correlation
	Profit making clubs	Loss making clubs	Clubs with a 'sugar daddy'	EPL Aggregate	
	%	%	%	%	r
2004	22	(7)	(11)	9	(0.67)
2005	20	(11)	(13)	11	(0.77)
2006	12	4	(3)	7	(0.80)
2007	20	(6)	(9)	6	(0.89)
2008	19	(10)	(12)	6	(0.79)
2009	15	(6)	(11)	4	(0.83)
2010	17	(7)	(17)	3	(0.64)
2011	22	(17)	(20)	1	(0.88)
2012	16	(5)	(8)	4	(0.89)
2013	14	(4)	(7)	6	(0.88)
2014	20	12	14	19	(0.76)
2015	21	(2)	8	16	(0.90)

Table 4.20: Profit / (Loss) from operations as a % of revenue split by category of club and relationship between PFO (%) and wages as a % of revenue ratio 2004-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

Although the performance of clubs supported by sugar daddies did improve after 2013, an aggregate profit from operations of just £8 for every £100 generated in revenue in 2015 was too small to cover amortisation and interest payable.

Table 4.20 also shows the strong negative linear relationship between PFO and wages as a percentage of revenue, indicating that poor control of wages left clubs reliant on funds from the disposal of players or continued support from sugar daddies and other lenders.

4.8.5 Liquidity

Losses from operations also impacted adversely on liquidity. Cash Flow from Operations (CFO) is shown in an organisation's Statement of Cash Flows (SCF) and indicates the cash

generated from day to day operating activities. It is not distorted by player trading or interest payable.

Year	Pearson's coefficient of correlation	Includes Arsenal, Manchester United and Tottenham Hotspur		Excludes Arsenal, Manchester United and Tottenham Hotspur	
		Profit from operations (PFO)	Cash Flow from Operations (CFO)	Profit from operations (PFO)	Cash Flow from Operations (CFO)
	r	£m	£m	£m	£m
2004	0.96	113.2	183.0	15.6	68.7
2005	0.67	124.6	213.9	46.1	68.1
2006	0.87	76.6	208.5	33.5	54.4
2007	0.77	86.7	216.3	(16.2)	42.8
2008	0.80	131.2	147.5	17.5	45.1
2009	0.90	77.9	230.1	(46.7)	26.7
2010	0.90	77.4	228.1	(60.6)	(71.8)
2011	0.84	4.2	297.4	(170.9)	50.1
2012	0.93	98.0	70.3	(13.7)	(64.3)
2013	0.87	113.3	189.8	(13.8)	(11.6)
2014	0.75	570.4	657.7	376.7	375.9
2015	0.91	533.5	753.2	327.5	414.8

Table 4.21: Relationship between aggregated Cash Flow from Operations (CFO) and Profit From Operations 2004-15
(Source: Calculated from financial statements of clubs in the EPL 2004-15)

From table 4.21 we can see that Pearson's coefficient of correlation (r) shows a strong linear relationship between CFO and PFO. It should be noted that not all clubs provided a SCF, however 195 observations during the period 2004-15 gave a coefficient of correlation of 0.84 and a coefficient of determination (r^2) of 0.71.

For each year table 4.21 also shows aggregated PFO and CFO for all clubs that published a SCF. These figures included Arsenal, Manchester United and Tottenham, which were the only clubs to generate a PFO in every year from 2004-15. Removing these clubs showed a very different position, with cash outflows exceeding inflows during 2010, 2012 and 2013.

Although clubs received regular inflows of cash from matchday, broadcasting and commercial activities, excessive amounts spent on players' wages resulted in LFOs and

liquidity problems for several clubs. More detailed analysis showed that in 2010 Manchester City's day to day business activities resulted in a net cash outflow of £84 million (Manchester City Ltd 2010:14); an injection of equity amounting to £136 million ensured the club had sufficient cash to operate (2010:17). During 2013 Aston Villa made a LFO of £24 million (Reform Acquisition Ltd 2013:8), which resulted in a negative CFO of £20 million (2013:11). Liquidity problems eased only after owner Randy Lerner provided soft loans of £42 million (2013:29).

4.8.6 Profit (Loss) before interest and tax as a percentage of revenue

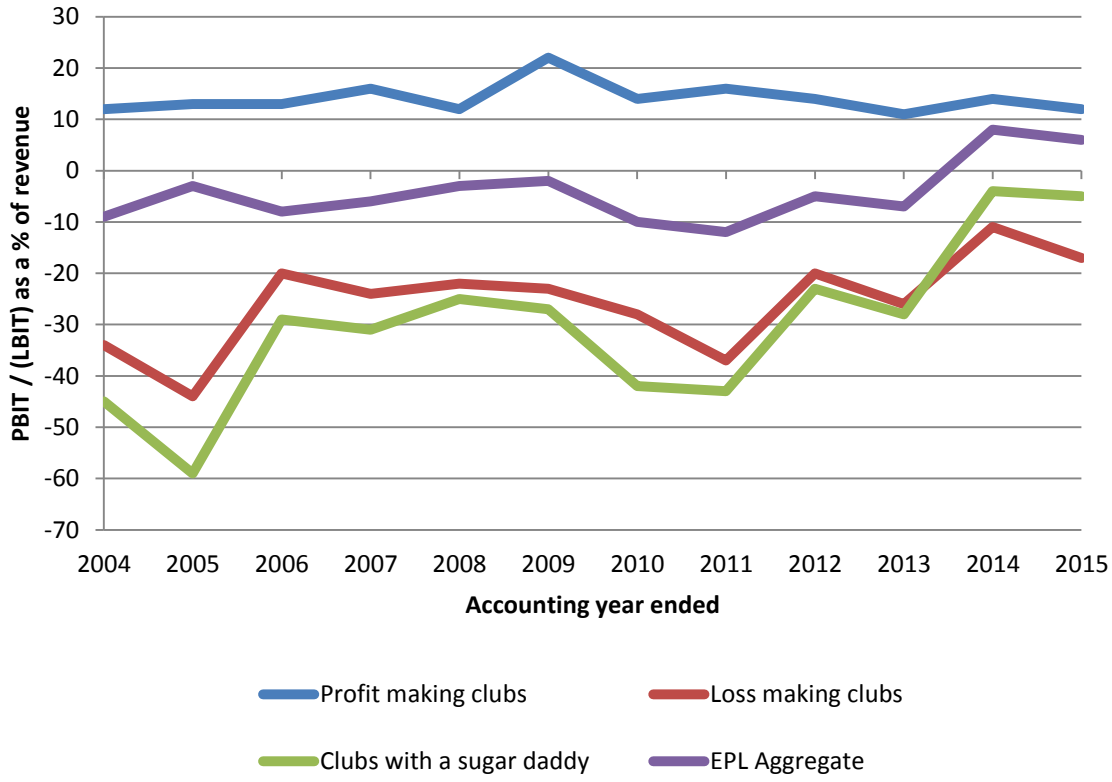
Analysis by category highlighted losses made by clubs supported by sugar daddies (Table 4.22 and Figure 4.10). Financial performance improved after 2013 as compliance with FFP and STCC restricted growth in players' wages and meant 75% of clubs reported a PBIT (Calculated from table 4.15).

Discussions with elite informants established that clubs set budgets at the start of each season and these usually forecast a small surplus or at least achieving break-even, 'What we do is plan the budget in March and we stick to that…our budget is always to break-even or make a small profit' (Informant 3).

Stronger financial regulation made it increasingly important that clubs operated within their budgets,

> 'The bottom line for any football club whilst it doesn't have to run like a [normal] business in that it doesn't have to generate returns for shareholders, we have to ensure that we are as close as possible to break-even…However we must ensure that we remain competitive. At the start of every season…we have a set budget in place pretty much for everything. The running costs of the football club, the stadium, training ground…transfer fees and salary costs…It's quite important for everyone now especially with FFP, that we need to set out what we are going to be incurring for the year.' (Informant 9)

Figure 4.10: PBIT / (LBIT) as a % of revenue 2004-15 (Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)



In most cases budgets were linked to playing success in the form of a target finishing position in the EPL,

> 'As a PL club we assume a finishing position of 17th and we'll budget accordingly. Our club always aimed to break-even over the season. Any profit that we make would be re-invested…in buying new players or re-contracting existing players on increased salaries.' (Informant 8)

Although clubs endeavoured to adhere to original budgets, unforeseen circumstances including the threat of relegation might lead to an increase in spending mid-way through the season. This often followed the appointment of a new manger which resulted in unplanned investment in new players and termination costs related to previous coaching staff,

'It's so easy for clubs to over extend themselves and if you are in the bottom three at Christmas it's very easy for owners, encouraged by the managers to invest in players that will keep you in that division because the rewards now for maintaining your status are huge. So there is that temptation to improve your squad…Our strategy was always…to use the PL income to pay the going rate for players but not to over extend ourselves to the situation where we were incurring significant losses.' (Informant 8)

Overspending might also occur where a club gambled on achieving a higher league position than had been anticipated when the original budget was set.

'Now if you've got a lot of football clubs that are taking too big a risk from a financial perspective, and I saw this first hand…particularly in January transfer windows there was a clear gamble going on. Clubs were saying…let's potentially spend more than we've got, to try and get us through this season…I think the mind set of even the smaller clubs is very similar. Everybody is striving to get this success.' (Informant 6)

Year	Profit / (Loss) before interest and tax as a % of revenue			
	Profit making clubs	Loss making clubs	Clubs with a 'sugar daddy'	EPL Aggregate
	%	%	%	%
2004	12	(34)	(45)	(9)
2005	13	(44)	(59)	(3)
2006	13	(20)	(29)	(8)
2007	16	(24)	(31)	(6)
2008	12	(22)	(25)	(3)
2009	22	(23)	(27)	(2)
2010	14	(28)	(42)	(10)
2011	16	(37)	(43)	(12)
2012	14	(20)	(23)	(5)
2013	11	(26)	(28)	(7)
2014	14	(11)	(4)	8
2015	12	(17)	(5)	6

Table 4.22: Profit / (Loss) before interest and tax as a % of revenue split by category of club 2004-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

Incentives for finishing higher in the EPL included additional broadcasting merit payments and the opportunity to qualify for European competition. However acquiring players' mid-way through the season was a risky strategy with no guarantee of playing success, particularly if rivals were doing the same thing,

> 'If you budget for say a 17th place finish and you've got a certain level of revenue, that almost dictates that you might finish 17th. If you budget for 10th place, you've got seven merit payments more; you could have an incremental gain of £10-12 million which does make a difference in terms of your wages budget. So it's quite difficult to balance the two and of course it gets distorted because you get injuries; you might want to buy players before you've actually sold players…During the season you might change your manager and that's increased costs; a new manager will want different players; so it all becomes quite tricky.' (Informant 7)

Despite his earlier comments on 'sticking' to budgets, Informant 3 admitted that the scale of the August 2016 broadcasting contract meant his club overspent in 2015 to maximise its chances of remaining in the EPL,

> 'We did make a small loss this year because of the new broadcasting deal coming up next year…So we did go further than we would normally…on transfer fees, though it was a conscious decision. In hindsight I don't think it was worth the risk and money was not well spent.' (Informant 3)

Since the primary objective of a football club is playing success it was reasoned that, 'Football clubs don't need to generate profits. They just need to avoid big losses that threaten the viability and sustainability of the club' (Informant 2). It was also noted that supporters were often critical if they perceived financial prudence was adversely impacting on playing success,

> 'Look at Arsenal and the hassle they're getting for running a proper, prudent, financial ship. People are saying you should be spending because they want success on the pitch. So it's incredibly difficult to hold anything back in reserve which is why it's

difficult for a club to be a plc and pay dividends. People are always going to say, "Well you should be investing that in your team.''' (Informant 7)

It was explained that the scale of broadcasting revenue meant for many clubs playing success was measured as becoming established in the EPL,

> 'Our objective is stability in the EPL. To be a financially well-run club established in the EPL… Success would be over achieving against our wages bill…our wages bill…it's around 12th or 13th or 14th in the EPL. To finish above that would be a success...A cup run is good for the fans, it's good for the profile of the club…but it's not part of our budgeted financial plan. It's financially not lucrative but it's the intangible on the back of a cup run; more Facebook followers…more media attention. The focus is all about staying in the EPL and the broadcasting money that comes from that.' (Informant 3)

Club B had finished as high as eighth in the EPL and informant 3 went on to explain, 'To get into the top seven, the amount of investment that you would have to do for the return is huge. European football would be an added pressure that the club doesn't really need or want' (Informant 3).

4.8.7 Player trading activities

Further analysis indicated how player trading activities impacted on the profitability of several clubs. So for example in 2013 without surpluses from player trading Arsenal (£47 million surplus from player trading (Arsenal Holdings plc 2013:23)), Everton (£16 million (Everton Football Club Company Ltd 2013:54)), and Wigan (£8 million (Wigan Athletic AFC Ltd 2013:10)) would each have reported a LBIT.

Perhaps of greater concern was that in 2010 losses reported by Blackburn (£11 million surplus from player trading (Blackburn Rovers plc 2010:11)) and Liverpool (£23 million (Liverpool FC Ltd 2010:9)) would have been much larger without surpluses from player trading.

Although buying and selling players is part of the business of a football club, generating surpluses in this way cannot be relied upon and results in a one-off inflow of cash and the loss of a valuable asset. Elite informants mostly agreed this was not something they budgeted for, 'If you built in player sales as part of your business model that is a risky strategy. So we don't budget for player sales' (Informant 3). Informant 8 concurred and explained that although his club had generated large surpluses from player trading this was not necessarily through choice and players that were sold had to be replaced,

> 'Our first aim was survival in the PL and to maintain our position there, and if you plan to sell your better players then that's a very difficult strategy to maintain because ultimately you're not necessarily successful every time you buy a player.' (Informant 8)

He went on to explain that player trading had been greatly assisted by better player recruitment which provided his club with a competitive advantage,

> 'As…we became a more established PL club, our recruitment of players became stronger and we were able to buy players from overseas, South America and Europe, and we were able to develop those players...For lower fees than our competitors we were able to produce players that became top players...and sell them for quite significant sums. That helps you to invest in future players. It also helps to balance the books.' (Informant 8)

It was also explained that a club relegated from the EPL might be forced to sell players for less than market value, 'There aren't enough clauses where if there's relegation the wages will immediately reduce…There's also a fall in the value of players so we can have distress sales' (Informant 6).

FFP and EPL rules encouraged investment in youth academies and elite informants suggested this could potentially provide a lucrative source of funds. However to be effective it required up-front investment in infrastructure,

> 'There are a lot of clubs whose business plan…is to generate income or profits from the sale of players. Not many clubs have managed to pull this off successfully. This is

mainly because to put such a business plan in place, the underlying investment has to go in first with regards to the academy, the scouting system, and the coaching.' (Informant 9)

Analysis showed that during the period 2004-15 the book value of players' registrations made up between 20-25% of aggregated total assets and in monetary terms increased in value from £546 million in 2004 to £1.6 billion by 2015 (Calculated from aggregated financial statements of clubs in the EPL 2004-2015); reflecting the rising cost of players' registrations.

4.8.8 Interest cover

In 2004 Aston Villa's net interest payable was £95,000 (Aston Villa plc 2005:22) which amounted to just 0.2% of total revenue. However the club reported a LBIT of £11 million (2005:22), so even this relatively small amount of net interest payable worsened losses and resulted in negative interest cover. Although in 2010 Arsenal's net interest payable amounted to £18 million, a PBIT of almost £74 million (Arsenal Holdings plc 2010:31) meant there was sufficient profit to pay this four times over.

Year	Interest cover ratio			
	Profit making clubs	**Loss making clubs**	**Clubs with a 'sugar daddy'**	**EPL Aggregate**
2004(i)	7.3	2.2 / (7.9)	(8.3)	1.4 / (2.3)
2005	6.6	(11.8)	(13.5)	(1.4)
2006	4.6	(2.7)	(6.7)	(1.4)
2007	1.3	(4.9)	(6.2)	(0.7)
2008	1.5	(3.8)	(4.1)	(0.4)
2009	2.9	(4.6)	(5.1)	(0.4)
2010	1.0	(7.1)	(16.7)	(1.2)
2011	3.5	(14.2)	(16.4)	(3.3)
2012	2.2	(24.6)	n/a **(i)**	(1.7)
2013	1.4	(21.5)	(27.7)	(1.5)
2014	5.4	(13.5)	(5.7)	3.8
2015	4.3	(10.6)	(3.5)	2.3

Table 4.23: Interest cover ratio split by category of club 2004-15
Note:
(i) In 2004 clubs reported aggregate interest receivable
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

An aggregate LBIT meant the EPL's interest cover ratio was negative in every year between 2005 and 2013 (Table 4.23). It should be noted that interest cover for 2004 was distorted favourably by amounts written off by Leeds United's lenders. Removing Leeds United from aggregate figures for 2004 resulted in net interest payable of £34 million and negative interest cover (of -2.3).

From figure 4.11 we can see that rising levels of debt meant aggregate net interest payable exceeded £120 million in each year from 2007-10. Figure 4.11 also indicates that since clubs supported by sugar daddies benefited from soft loans, the burden of net interest payable fell on those clubs that reported a PBIT. Further analysis showed that Arsenal and Manchester United incurred highest net interest payable during the period under review.

Arsenal borrowed heavily to build the Emirates stadium and in 2007 had loans of £340 million (Arsenal Holdings plc 2008:45). Although net interest payable and re-financing costs on this amounted to £37 million (2008:37), increased matchday combined with tight control of costs meant Arsenal could report a PBT of £6 million (2008:29). By 2015 Arsenal's debt had fallen to £235 million (2015:55) and its PBIT was sufficient to cover interest payable of £13 million (2015:52) almost 3 times over,

> 'So where you have debt restructures at Arsenal which paid for fantastic facilities and a stadium, then whilst it's quite high debt I don't think anyone would consider that to be an issue for Arsenal since they are a club that generates a level of profitability that means you can service that debt and make the repayments as they are due to be paid.' (Informant 2)

This was contrasted with the leveraged buyout model used by the Glazer family to acquire Manchester United,

> 'The original Manchester United model was horrific. They went out and borrowed something like £600 million and effectively bought the holding company and the club…They got this New York Stock Exchange listing, I think they had to do something to reduce the debt of the holding company.' (Informant 6)

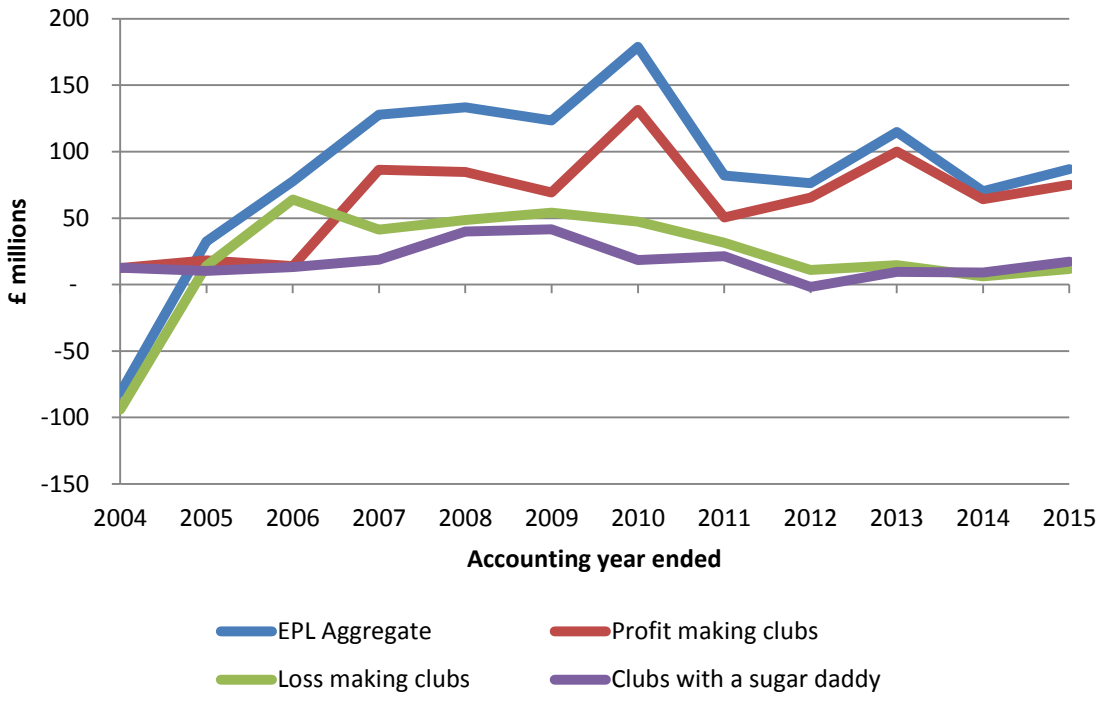
In 2004 Manchester United had no long-term debt. However the way in which the Glazers funded their acquisition through loans secured against the club's assets, meant that between 2007-10 borrowings exceeded £500 million (Red Football Ltd 2010:29). Servicing this proved expensive and in 2010 net interest payable and the cost of re-structuring loans amounted to £107 million, turning a respectable PBIT of £27 million into a pre-tax loss of £80 million (2010:9). By 2015 long-term debt had fallen to £411 million (2015:44), however interest payable on this amounted to £35 million resulting in interest cover of just 0.93 and a LBT of £2 million (2015:12).

Kaplan and Stromberg (2009) explained that the leveraged buyout model had been in use since the 1980s and involved the acquisition of a company 'Using a relatively small portion of equity and a relatively large portion of outside debt financing' (2009:121). This meant debt was serviced through profits generated by the company being acquired, which could be risky if forecasts were too optimistic. Although leveraged buyouts were not unusual in some North American sports they were relatively new to England (Millward and Poulton 2014:2), and the acquisition of Manchester United drew criticism from supporters concerned that funds would be spent servicing debt rather than being invested in playing success.

Despite criticisms of the leveraged buyout model, Manchester United has continued to perform strongly on and off the field of play. Since 2005 the club has won five EPL titles, the Champions League, four League cups, the FA Cup, Europa League and World Club Cup. Alongside this strong period of playing success, the Glazer family has exploited the club's global brand to generate £280 million in commercial revenues in 2017 (Deloitte 2018b:10). In comparison the club generated just £42 million from this income steam in 2005 (Manchester United 2005:10). Growth in all revenue streams has enabled Manchester United to acquire players and service significant debt, and by 2015 the club had the largest value of players' registrations in the EPL (Observed from financial statements of clubs in the EPL 2015).

The positions of these clubs can be juxtaposed with Chelsea which from 2006 onwards had debt in excess of £500 million (Calculated from Financial Statements of Fordstam Ltd 2006-15). By 2015 Chelsea's debt amounted to £1.1 billion (2015:24). However since this was an interest free loan from owner Roman Abramovich, Chelsea's income statement showed net interest receivable of £98,000 (2015:8).

Figure 4.11: Net interest payable / (receivable) 2004-15 (Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)



By 2015 aggregate net interest payable by clubs in the EPL amounted to £87 million (Figure 4.11), of which £48 million was incurred by Arsenal (Arsenal Holdings plc 2015:37) and Manchester United (Red Football Ltd 2015:12).

From table 4.23 we can see that for profit making clubs rising levels of debt (driven by Arsenal and Manchester United) meant interest cover declined and by 2010 PBIT was exactly equal to interest payable. The position recovered and by 2015 profit making clubs had interest cover of 4.3.

By 2015 loss making clubs had aggregate net interest payable of just £12 million (Calculated from aggregated financial statements of clubs in the EPL 2015). This category included most of those clubs backed by sugar daddies, and as we have already established a number of these had loans from owners and related parties at low or no interest.

4.8.9 Interest as a percentage of revenue

As with wages and amortisation it is useful to express net interest payable as a percentage of revenue (Table 4.24). Excluding Leeds United from 2004 figures showed net interest payable amounted to 2.6% of aggregate revenue. This ratio peaked at 8.5% in 2007 when aggregate hard debt exceeded £1.5 billion (Table 4.13). Although by 2015 aggregate debt had increased to £2.9 billion (Table 4.13) a large proportion was soft loans, and growth in revenue meant net interest payable had fallen to 2.6% of aggregate revenue.

Year	Net interest payable / (receivable) as a % of revenue ratio			
	Profit making clubs	**Loss making clubs**	**Clubs with a 'sugar daddy'**	**EPL Aggregate**
	%	%	%	%
2004	1.6	(15.4) / 3.8	5.4	(6.0) / 2.6
2005	1.9	3.7	4.4	2.4
2006	2.8	7.3	4.3	5.7
2007	12.8	4.9	4.9	8.5
2008	7.8	5.8	6.0	6.9
2009	7.7	5.0	5.3	6.2
2010	14.5	3.9	2.5	8.4
2011	4.6	2.6	2.6	3.6
2012	6.4	0.8	(0.2)	3.3
2013	7.5	1.2	1.0	4.5
2014	2.5	0.8	0.7	2.2
2015	2.9	1.6	1.4	2.6

Table 4.24: Net interest payable / (receivable) as a % of revenue ratio split by category of club 2004-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

Soft loans meant that in 2015 interest payable by loss making clubs amounted to just 1.6% of revenue. Of those clubs that reported a LBIT only Everton didn't have the support of a wealthy owner. Everton's debt of £40 million was secured against future season ticket sales

and broadcasting revenue (2015:80) and was manageable as long as the club remained in the EPL.

Loans taken out by Manchester United and Arsenal meant that throughout the period profitable clubs had the highest net interest payable as a percentage of revenue. Analysis of Manchester United's financial statements demonstrated the burden this placed on the club. In 2013 net interest payable of £69 million (2013:11) amounted to 19% of Manchester United's revenue, and exceeded revenue reported by seven clubs in the EPL (Observed from financial statements of clubs in the EPL 2013).

4.8.10 The impact of financial regulation on control of costs

Although not everyone had been in favour of their introduction, it was recognised that FFP and STCC had encouraged better cost discipline,

> 'There's been a change in terms of their desire to…break-even…and potentially move into profits. You can argue that there are all sorts of reasons why that's happened, but I definitely do think it's a mixture of both the UEFA FFP and EPL rules coming in, but also the increase in broadcasting revenue which has helped.' (Informant 6)

STCC meant increased broadcasting revenue could no longer be used to fund corresponding growth in wages, and it was suggested clubs had used this to their advantage when negotiating recent contracts with players and agents, 'It's probably restrained behaviour and…clubs have used it as a means of trying to control costs with wage negotiations, so it undoubtedly has had an effect' (Informant 7).

During the period 2004-13 clubs in the EPL earned cumulative aggregate revenue of almost £19 billion; however £16 billion was spent on wages and amortisation, and pre-tax losses exceeded £2.1 billion (Table 4.25). This confirmed that several clubs were provided with a soft budget constraint that encouraged pursuit of playing success. Without increased financial regulation it is likely that excessive spending on players' costs would have continued,

'You don't have that wage inflation that you have had in previous broadcasting cycle rounds. That coupled with the latest two sets of broadcasting rights deals which went up exponentially by over 70% each time, then you've got a perfect mix of cost control mixed with inflated revenues…and by explaining to players and agents that they only have this amount of leeway otherwise they'll be in trouble for FFP purposes, that obviously concentrates the mind.' (Informant 5)

Year	Revenue	Wages and amortisation	Wages and amortisation / revenue	Profit / (Loss) before tax
	£m	£m	%	£m
2004-13	18,792.8	(16,015.2)	85%	(2,109.6)
2014-15	6,604.2	(5,187.8)	79%	310.1
Total 2004-15	**25,397.0**	**(21,203.0)**	**83%**	**(1,799.5)**

Table 4.25: Wages and amortisation as a % of cumulative revenue 2004-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

The introduction of FFP and STCC meant expenditure on wages and amortisation fell below 80% of revenue in 2014 and 2015 (Table 4.25), and clubs reported cumulative profits of £310 million (Table 4.25),

'In the past each time the broadcasting income went up you would see a corresponding increase in players' wages and agents' fees…the EPL has put into place short-term cost control which helps clubs when it comes to negotiating with players and agents about how to keep costs at a certain level. These elements have helped to keep most clubs on the right side of profitability.' (Informant 9)

'What we've seen in the last couple of years is the sheer amount of increase in income from central funds from the PL, aligned with a higher emphasis on FFP and control of costs...and that can only be a good thing for the financial health of the football clubs.' (Informant 8)

Furthermore it was expected that profitability would continue,

> ‘The scale of the revenues…together with cost regulation are two factors combined that help those clubs generate profits. The upcoming scale of agreements from 2016-17 and further uplifts in TV money for EPL clubs means I’d expect them to continue to be profitable.’ (Informant 2)

4.8.11 FFP focus on profit

Despite improved financial performance several elite informants argued that FFP focused too heavily on profit and should have instead restricted levels of debt. Sustainability of long-term funds was fundamental in ensuring clubs didn’t get into financial difficulties,

> ‘If you really wanted to…protect clubs for their communities in the long-term, you would just say you can’t put any debt into a club. You can run whatever deficit model you want, but it has to be financed by equity. Long-term you have to produce forecasts for three to five years and if that shows deficits then you have put in a bond that covers that period.’ (Informant 7)

It was also argued that FFP ignored that some owners weren’t concerned with generating a profit from football activities and instead used clubs to promote their global business interests,

> ‘They don’t necessarily come into it to make a profit. Look at Manchester City for instance. The owner’s motivation is to put Abu Dhabi on the map…Before Manchester City was taken over how many heard of Etihad?’ (Informant 4)

Others were more sympathetic about what FFP was trying to achieve, recognising that leaving football to market forces hadn’t worked,

> ‘We believe to a certain extent it should be left to the shareholders of the club to run the financial system how the club feels, but…boundaries need to be put in place to ensure that certain things that happened in the past…for example administration, do not recur.’ (Informant 9)

Financial regulation would have the greatest impact on those clubs that relied on soft budget constraints provided by owners and it was recognised these clubs were most likely to be critical of FFP,

> 'You're always going to get that difference of opinion between the people who are trying to run football clubs on a balanced financial structure where the club…maintains a healthy profitability or break-even position, against club owners who say "Well if I want to spend my money on investing in my football club and buying players and paying huge salaries, then why can't I because you can in any other business?" I do think there is an obligation to put in some form of protection for supporters, for the integrity of the competition, to protect clubs from perhaps owners who look too short-term…without really considering the consequences long-term.' (Informant 8)

Now let us turn our attention to the problems of rising levels of debt and negative equity.

4.9 Shareholders' equity and reliance on debt

We have already established that several clubs in the EPL operated with low levels of equity. This was due to a combination of losses and how these clubs were funded. Rather than increasing share capital several owners provided loans at low or no interest. This worsened the financial positions of clubs since loans increased liabilities, whilst excessive spending resulted in cumulative losses that reduced equity further still. By 2015 Roman Abramovich had provided Chelsea with soft loans of £1.1 billion (Fordstam 2015:24) resulting in negative equity of £698 million (Table 4.26). Removing Chelsea significantly improved the EPL's aggregate position, though by 2015 seven clubs (including Chelsea) operated with negative equity (Table 4.26).

The provision of funds in this way was one of the 'softening instruments' described by Kornai et al (2003:1102). In the EPL it meant that even though a club might consistently report large losses, a benevolent wealthy owner would make available sufficient funds to cover deficits. However over time this reduced cost discipline, and the continued operation of a club might be threatened where the provision of soft loans was no longer sustainable.

The Bank of England described shareholders' equity as 'The highest form of capital' (Bank of England) and explained that high levels of equity meant owners had a greater incentive to operate an organisation more 'prudently' (Bank of England).

	Shareholders' equity			No. of clubs with Negative Equity
Year	EPL Aggregate	Chelsea	EPL Aggregate (excluding Chelsea)	
	£m	£m	£m	
2004	271.3	(17.9)	289.2	8
2005	103.1	(174.1)	277.2	7
2006	237.7	(255.3)	493.0	10
2007	110.3	(331.1)	441.4	10
2008	(46.5)	(414.9)	368.4	11
2009(i)	(127.0)	(462.3)	335.3	12
2010(i)	564.8	(540.1)	1,104.9	11
2011	465.0	(617.9)	1,082.9	10
2012	712.9	(622.4)	1,335.3	9
2013	536.9	(678.1)	1,215.0	12
2014	1,047.2	(664.6)	1,711.8	10
2015	1,281.7	(697.6)	1,979.3	7

Table 4.26: Aggregate shareholders' equity (£m) for clubs in the EPL 2004-15
(i) Excludes Portsmouth
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

4.9.1 Shareholders' equity / Total assets ratio

Our calculations in table 4.27 provided further evidence that several clubs were reliant on borrowed funds, and by 2011 equity funded just 9% of aggregate assets. It was only after Abu Dhabi United Group Investment and Development (ADG) acquired Manchester City and funded its investment through share capital that this ratio improved for clubs with a sugar daddy. However soft loans at Chelsea, Fulham, QPR, Stoke City and Sunderland meant this ratio remained negative for this category throughout the period under review. A combination of new issues of share capital and rising retained earnings meant the equity of profit making clubs increased significantly.

	Shareholders' equity / Total assets			
Year	**Profit making clubs**	**Loss making clubs**	**Clubs with a 'sugar daddy'**	**EPL Aggregate**
	%	**%**	**%**	**%**
2004	17	8	(38)	13
2005	25	(39)	(64)	4
2006	16	2	(78)	7
2007	27	(31)	(78)	3
2008	19	(37)	(51)	(1)
2009	26	(43)	(55)	(3)
2010	42	(24)	(40)	12
2011	35	(31)	(49)	9
2012	43	(24)	(36)	15
2013	36	(31)	(32)	11
2014(i)	13	39	(18)	18
2015 (ii)	41	(93)	(12)	20

Table 4.27: Shareholders' equity / Total assets ratio split by category of club 2004-15
Note:
(i) The improvement for loss making clubs and corresponding decline for profit making clubs was because Chelsea reported a PBIT in 2014.
(ii) Manchester City reported a PBIT in 2015 removing its equity from the LBIT category. This meant the large amounts of soft debt that funded Chelsea and QPR adversely impacted on the LBIT figure for 2015.
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

4.9.2 Going concern and soft loans

Worsening negative equity and an auditors' report expressing reservations about going concern are each classed as a breach of FFPR (UEFA 2015:39). Reservations about going concern might include an emphasis of matter paragraph or a qualified auditors' report. An emphasis of matter paragraph,

> 'Refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.' (Financial Reporting Council 2010:2)

When preparing financial statements several clubs made reference to being dependent on continued financial support from owners and related parties including Chelsea (Fordstam Ltd 2013:12), Manchester City (Manchester City Ltd 2015:41), Newcastle United (Newcastle

United Ltd 2013:9), QPR (QPR Holdings Ltd 2013:11), Stoke City (Stoke City FC Ltd 2013:12), Sunderland (Sunderland AFC Ltd 2013:9) and Wigan (Wigan Athletic AFC Ltd 2013:15).

This was further evidence of a soft budget constraint and it was explained that,

> 'Auditors…would need to be satisfied that those debts won't be called in…A significant proportion…are soft debts with the owners so it isn't an issue because there was sufficient comfort being obtained by both the directors and the auditors to confirm that effectively it was quasi-equity.' (Informant 6)

A review of financial statements indicated that despite assurances from owners and other providers of debt, auditors had occasionally referred to uncertainties and events that might threaten the continued operation of clubs. In 2004 Leeds United reported an operating loss of £30 million (Leeds United AFC Ltd 2004:6) and negative equity of £14 million (2004:8). The auditors' report commented that going concern was reliant on the accuracy of financial forecasts prepared by directors up to June 2006 (2004:5), which showed the club had sufficient resources to meet short-term liabilities (2004:9).

In 2006 Fulham's SFP showed negative equity of £144 million (Fulham Football Leisure Ltd 2006:9) and meant the club was reliant on continued financial support from Mohammed Al Fayed (2006:12). The auditors' report commented that this 'May cast significant doubt about the group's ability to continue as a going concern' (2006:7).

In 2011 Birmingham City's auditors explained that financial forecasts prepared by directors did not provide sufficient evidence that the club remained a going concern (Birmingham City plc 2011:8). This followed the arrest of the club's owner Carson Yeung on allegations of money laundering in Hong Kong (2011:3). The auditors were concerned that soft loans of £22 million from Yeung might be recalled by Hong Kong Authorities (2011:3) and this would threaten the club's survival (2011:7).

Gillett and Hicks funded their acquisition of Liverpool through loans secured on the club's assets (Liverpool FC Ltd 2008:9). In 2008 Liverpool's directors explained that the club's ability to remain in operation was dependant on replacing a credit facility of £105 million

from Royal Bank of Scotland (RBS) that was due for repayment by 31 July 2009 (2008:9). The state of the global economy made raising new finance 'challenging' (2008:9) and the auditors' report explained this 'Cast significant doubt on the company's ability to continue as a going concern' (2008:5). Failure to repay this debt resulted in RBS forcing Gillett and Hicks to sell Liverpool to Fenway Sports Group in October 2010 (2010:5).

Conversely in 2008 Portsmouth reported losses of £17 million (Portsmouth City FC Ltd 2008:7) and negative equity of £48 million (2008:8). Despite the club being reliant on continued support from owner Alexandre Gaydamak (2008:10), the auditors' report made no reference to uncertainties related to going concern.

A review of financial statements published by clubs in the EPL during 2012-15 showed no qualified auditors' reports and just one emphasis of matter related to going concern. In 2014 Baker Tilly, the auditors of Crystal Palace included a paragraph that explained going concern was 'Dependent on the continued support of the ultimate controlling parties' (CPFC 2010 Ltd 2014:7). The financial statements showed a profit after tax of £18 million (2014:9), shareholders' equity of £15 million (2014:10), and long-term debt of £11 million in the form of interest free loans from the company's four shareholders (2014:25). It seems inconsistent that the auditors of other clubs that owed much larger amounts of soft debt did not also include an emphasis of matter paragraph in their reports.

Rather than providing soft loans ADG instead funded Manchester City through share capital, so despite heavy losses by 2015 the club had shareholders' equity of over £676 million (Manchester City Ltd 2015:39). More recently the owners of Wigan, Fulham and Aston Villa converted soft debt into equity. Fulham's 2011 SFP showed negative equity of £178 million and a loan of £200 million (Fulham Football Leisure Ltd 2012:10) from Mohammed Al Fayed (2012:13). In June 2012 Al Fayed converted this loan into equity (2012:24) after which assets exceeded liabilities by almost £16 million (2012:10). He sold Fulham in July 2013 (2013:4).

4.9.3 Gearing

Analysis of gearing (Table 4.28) showed that in 2004 debt made up 79% of aggregate capital employed, increasing to over 100% in 2008 and 2009. To put this into context Melville (2014) suggested that 'As a rule of thumb, a capital gearing ratio in excess of 50% might generally be regarded as high' (2014:365).

For profit making clubs gearing improved during the period and by 2015 debt made up 39% of funds with the remainder provided by shareholders' equity. Negative equity accompanied by debt meant clubs backed by sugar daddies had gearing above 100% throughout the entire period. However it was explained that,

> 'A lot of the debt for EPL clubs…tends to be to the owner so sometimes it can be described as "quasi-equity"…I'm not sure Mr Abramovich will ever get his £1 billion back should he decide to move on from Chelsea. There's relatively little debt to third party bankers and financiers…whether debt is an issue or not is more about how a club is able to service that debt if it is required to service it at all, by way of interest payments.' (Informant 2)

This was contrasted with those clubs that were required to service large amounts of hard debt and the impact this might have on operating activities,

> 'It's Liverpool-Gillette-Hicks…at what point do loans that are effectively attached to the club inhibit the club's ability to be able to spend accordingly. And at what point do the interest payments…mean that the club is financing those interest payments and capital repayments, rather than actually being able to invest in other football related activities…As soon as that happens, and the fans start realising that money is being taken out for financing reasons, then it gets a little tricky to put it mildly.' (Informant 5)

FFP's equity contribution for losses above €5 million (up to a maximum of €30 million) (UEFA 2015:38) will limit the availability of soft loans, though this won't address existing levels of negative equity.

	Gearing ratio			
Year	**Profit making clubs**	**Loss making clubs**	**Clubs with a 'sugar daddy'**	**EPL Aggregate**
	%	**%**	**%**	**%**
2004	71	87	166	79
2005	58	159	203	93
2006	74	97	231	89
2007	63	150	218	96
2008	73	165	185	102
2009	63	170	192	104
2010	45	140	163	82
2011	52	156	186	86
2012	42	142	159	78
2013	49	151	150	84
2014(i)	79	50	125	72
2015(ii)	39	252	116	69

Table 4.28: Gearing ratio (%) split by category of club 2004-15

Note:

(i) The improvement for loss making clubs and corresponding decline for profit making clubs was because Chelsea reported a PBIT in 2014.

(ii) Manchester City reported a PBIT in 2015 removing its equity from the LBIT category. This meant the large amounts of soft debt that funded Chelsea and QPR adversely impacted on the LBIT figure for 2015.

(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

4.9.4 Revenue / Total debt ratio

In 2004 aggregate revenue was 1.3 times greater than aggregate debt (Table 4.29). Although between 2004-13 revenue increased by 88% (Table 4.1), debt increased at a faster rate and by 2013 this ratio had declined to 0.9 (meaning revenue amounted to 90% of debt). The ratios for profit making clubs were adversely affected by loans taken out by Arsenal and Manchester United, though by 2015 aggregate revenue was 1.9 times greater than debt.

Although this ratio remained mostly below one for loss making clubs and clubs supported by sugar daddies, a large proportion of debt comprised soft loans from owners and related companies. This was not necessarily a problem so long as these funds were sustainable.

Year	Revenue / Total debt ratio				No. of clubs where debt > revenue
	Profit making clubs	Loss making clubs	Clubs with a 'sugar daddy'	EPL Aggregate	
2004	1.6	1.1	0.5	1.3	6
2005	1.8	0.5	0.4	1.0	6
2006	0.9	0.6	0.4	0.7	7
2007	0.6	0.6	0.4	0.6	11
2008	0.8	0.6	0.5	0.7	10
2009	0.8	0.6	0.5	0.6	11
2010	1.0	0.7	0.5	0.8	7
2011	1.0	0.7	0.5	0.8	9
2012	1.1	0.8	0.7	0.9	7
2013	1.3	0.7	0.6	0.9	6
Total 2004-13					**80**
2014(i)	1.1	1.7	0.8	1.2	3
2015(ii)	1.9	0.5	0.7	1.2	5
Total 2004-15					**88**

Table 4.29: Revenue / Total debt ratio split by category of club and number of clubs where debt exceeded annual revenue 2004-15

Note:

(i) The improvement for loss making clubs and corresponding decline for profit making clubs was because Chelsea reported a PBIT in 2014.

(ii) Manchester City reported a PBIT in 2015 removing its equity from the LBIT category. This meant the large amounts of soft debt that funded Chelsea and QPR adversely impacted on the LBIT figure for 2015.

(Source: Calculated from aggregated financial statements of EPL clubs 2004-15)

The introduction of FFP gave greater emphasis to this ratio since UEFA can request additional financial information from a club where net debt is greater than revenue (UEFA 2015:39) (ie: a ratio of less than one). Calculations showed that between 2004-13 this ratio was below one for 80 out of 198 financial statements (40%) published by clubs in the EPL (Table 4.29). After 2013 just eight out of 40 financial statements (20%) showed a ratio below one (Table 4.29).

4.9.5 Sugar daddies and the sustainability of funds

We have established that clubs supported by wealthy owners frequently incurred heavy losses in pursuit of playing success and this was often funded by soft debt. However this strategy could threaten the continued operation of a club if an owner became unable or unwilling to continue to provide financial support,

> 'Because the fundamental principle of success is guided not by profit but by success on the pitch, it leads to very different business success measures or outcomes. Because of that you will have people who may be very successful businessmen in other sectors…getting into football and then spending lots of money which in any other industry would not make any type of business sense whatsoever. So people have seen...instances where owners will come in; spend a lot of money; realise it's not quite sustainable enough and do one of a few things. One is to stop funding the club. A second…is to try and keep funding it until their money runs out, which can lead to administration…or even worse.' (Informant 5)

Portsmouth should serve as a warning to all clubs that rely on a sugar daddy, 'The club went out and committed to up to five-year contracts for their players. There wasn't funding put in at that stage to cover five years, so…it wasn't sustainable' (Informant 6). Alexandre Gaydamak's business interests were adversely affected by the global financial crisis which meant he could no longer continue to provide funds (Conn 2010), and in February 2010 Portsmouth became the first club to go into administration whilst playing in the EPL (Deloitte 2010:9).

West Ham experienced severe financial difficulties when owner Bjorgolfur Gudmundsson lost much of his personal fortune following the collapse of an Icelandic bank in which he was a significant investor (Szymanski 2010:38). He was forced to sell West Ham in 2010, and although the club avoided going into administration it was relegated from the EPL,

> 'Even if it is soft debt…if that continuous investment…stops…the football club can be in trouble because costs and expenses are still being incurred. When a major source of

> cash flow into the club is restricted it becomes very difficult to continue in the short-term.' (Informant 8)

Manchester City potentially faced a period in administration when owner Thaksin Shinawatra had personal assets of £800 million frozen during an investigation into alleged criminal activities in Thailand (Hamil and Walters 2010:365). The club was saved when it was acquired by ADG in August 2008 (2010:365).

These situations showed the importance of sustainable funds,

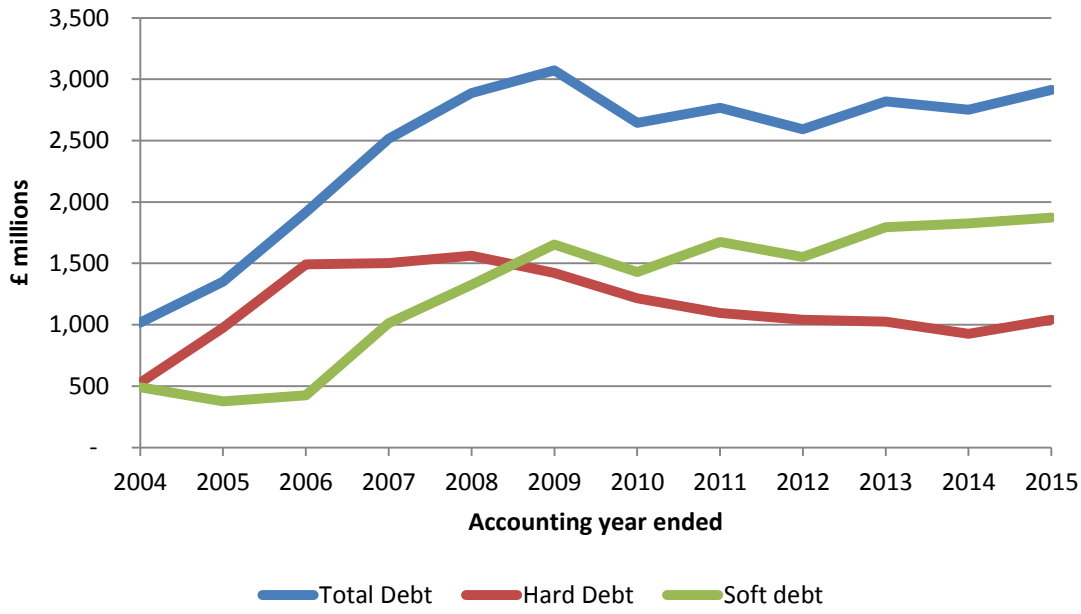
> 'Negative equity isn't necessarily a problem for a business as long as they…can meet their debts as they fall due…The real issue is whether it's for the long-term. Are they [providers of soft debt] coming in and committing to long-term contracts, particularly for players? Are they able to effectively commit to the funding that's going to be required to meet those wages costs in the future as well as the normal on-going running costs of a club?...Are they coming in with a 10-year plan rather than a one or two-year plan?' (Informant 6)

There was consensus that owners should fund clubs through equity, with elite informants observing that, 'Debt by its very nature if it becomes re-callable can leave the club with a long-term problem where the owner may walk away. So equity absolutely, is my preferred mechanism for putting in money' (Informant 1).

Although not everyone was in favour of increased financial regulation, there was agreement that FFP and EPL rules would in the medium to long-term greatly improve levels of equity,

> 'Where owners' injections are required to cover tolerable levels of losses, those injections must be by way of equity…Owners at Aston Villa, Manchester City and Fulham have converted debt to equity which is part of the reason why the debt figure across EPL clubs has come down over recent years…more money is coming in via equity rather than debt…So I guess that's been another positive influence of FFP.' (Informant 2)

Figure 4.12: Breakdown of total debt for the EPL 2004-15 (Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)



4.9.6 Hard debt

The gearing and revenue / total debt ratios included all hard and soft debt. However figure 4.12 indicates that growth in debt throughout this period was primarily due to increasing levels of soft debt (particularly at Chelsea). To properly evaluate the EPL's reliance on hard debt we removed all loans provided by owners and related parties (soft debt) and re-calculated these ratios.

4.9.7 Hard debt gearing

Treating soft loans from owners and related parties as equity rather than debt significantly improved gearing and by 2015 hard debt made up just 25% of capital employed (Table 4.30). We can also see that removing soft debt meant clubs with sugar daddies had the lowest gearing ratios. This was not surprising since the provision of soft debt reduced the need for these clubs to obtain bank loans and other forms of hard debt. Removing soft debt also improved gearing for other categories albeit to a lesser extent.

In 2015 clubs reported aggregate hard debt of just over £1 billion (Table 4.13). Further analysis showed that £744 million of this was owed by just four clubs Manchester United

(£411 million (Red Football Ltd 2015:44)), Arsenal (£235 million (Arsenal Holdings plc 2015:55)), Manchester City (£67 million (Manchester City Ltd 2015:55)) and Tottenham (£31 million (Tottenham Hotspur Ltd 2015:26)). Of those clubs that played in the EPL throughout the period 2004-15, only Arsenal, Manchester United and Tottenham generated a profit from operations in every year. Whilst Manchester City's hard debt was manageable given the club's growing revenue and wealthy backer.

	Hard debt gearing ratio			
Year	**Profit making clubs**	**Loss making clubs**	**Clubs with a 'sugar daddy'**	**EPL Aggregate**
	%	**%**	**%**	**%**
2004	43	39	27	41
2005	46	48	25	67
2006	64	43	29	69
2007	58	56	48	57
2008	58	49	49	55
2009	58	33	32	48
2010	44	29	20	38
2011	37	29	18	34
2012	35	26	13	32
2013	37	18	16	31
2014	27	15	10	24
2015	24	28	13	25

Table 4.30: Hard debt gearing ratio (%) split by category of club 2004-15
(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

4.9.8 Revenue / Hard debt ratio

From table 4.31 we can see that throughout the period this ratio was lowest for profit making clubs. This group included Manchester United, Arsenal and Tottenham, and although these clubs had large amounts of hard debt they also had growing revenues and demonstrated tight control of costs.

Analysis showed this ratio was below one in just 28 out of 238 (12%) financial statements published during this period (Table 4.31). This again highlighted that the financial positions of several clubs would have significantly improved if owners had converted soft loans into

share capital. However it was explained that, 'Whilst debt appears on the balance sheets, I think it's a lot of the time because it suited the tax position or the financial position of…the owners' (Informant 6).

	Revenue / Hard debt ratio				Number of clubs where hard debt > revenue
Year	**Profit making clubs**	**Loss making clubs**	**Clubs with a 'sugar daddy'**	**EPL Aggregate**	
2004	2.6	2.6	3.1	2.6	3
2005	2.2	1.6	3.0	1.4	3
2006	1.0	1.5	2.9	0.9	4
2007(i)	0.7	1.5	1.6	1.0	4
2008(i)	1.0	1.9	1.8	1.2	4
2009	0.9	2.9	2.8	1.4	3
2010	1.1	3.3	4.3	1.7	1
2011	1.4	4.0	5.6	2.1	2
2012	1.4	4.3	8.1	2.3	2
2013	1.6	5.7	5.8	2.5	1
2014	3.2	5.7	9.7	3.5	0
2015	3.0	4.5	6.6	3.2	1
Total					**28**

Table 4.31: Revenue / Hard debt ratio split by category of club and number of clubs where debt exceeded annual revenue 2004-15

Note:

(i) We can see that in 2007 and 2008 this ratio declined significantly for those clubs supported by sugar daddies. This was due to Middlesbrough's owner Steve Gibson replacing a short-term intra group loan of £69 million with bank loans repayable between 2009 and 2014 (Middlesbrough Football and Athletic Company (1986) Ltd 2007:20). In 2009 the club repaid £50 million of bank loans and Gibson replaced this with an interest free loan (2009:20), causing the aggregate ratio to improve.

(Source: Calculated from aggregated financial statements of clubs in the EPL 2004-15)

In recent years several owners and related parties have increased levels of share capital and often this involved converting soft debt into equity. Table 4.32 summarises equity contributions for the period 2012-15 which saw £749 million raised from new share issues (including £603 million of new investment by ADG), and £540 million of soft loans converted into share capital. Surprisingly Roman Abramovich had not converted any of his £1.1 billion soft loans (Fordstam 2015:24) to Chelsea into equity.

Accounting year ended / Club	Total Funds raised	Explanation
2012		
Aston Villa	£5m	Issue of ordinary share capital (Reform Acquisitions Ltd 2012:26)
Fulham	£212m	Conversion of debt to equity (Fulham Football Leisure Ltd 2012:25)
Manchester City	£169m	Issue of ordinary share capital (Manchester City Ltd 2012:27)
Wigan	£48m	Conversion of debt into preference share capital (Wigan Athletic AFC Ltd 2012:20)
2013		
Manchester City	£190m	Issue of ordinary share capital (Manchester City Ltd 2013:23)
Manchester United	£68m	Issue of ordinary share capital (Red Football Ltd 2013:15)
Southampton	£26m	Issue of ordinary share capital (Southampton FC Ltd 2013:19)
Sunderland	£33m	Conversion of debt to equity (Sunderland AFC Ltd 2013:19)
2014		
Aston Villa	£90m	Conversion of debt to equity (Reform Acquisitions Ltd 2014:27)
Cardiff	£3m	Conversion of debt to equity (Cardiff City FC (Holdings) Ltd 2014:28)
Manchester City	£160m	Issue of ordinary share capital (Manchester City Ltd 2014:24)
Tottenham	£40m	Issue of preference share capital (Tottenham Hotspur Ltd 2014:34)
2015		
Aston Villa	£92m	Comprised of new issue of ordinary share capital (£7m) and conversion of debt to equity (£85m) (Reform Acquisitions Ltd 2015:27)
Liverpool	£69m	Conversion of debt to equity (Liverpool FC and Athletic Grounds Ltd 2015:27)
Manchester City	£84m	Issue of ordinary share capital (Manchester City Ltd 2015:57)
Total	**£1,289m**	

Table 4.32: Funds raised through issue of share capital by clubs in the EPL 2012-15
(Source: Financial statements of clubs in the EPL 2012-15)

4.9.9 Concerns that FFP would restrict investment

Under FFP, the acceptable deviation meant wealthy owners were no longer able to invest unlimited amounts trying to quickly achieve playing success. Elite informants were concerned this would adversely impact on investment in clubs, 'They are few and far between the people who want to invest in football, so if you put a constraint on them it could have a long-term

damaging effect on the game' (Informant 7). Although informants were in favour of restricting debt, they were critical that FFP also constrained investment funded by equity,

> 'I can see the issue with owners…using debt to finance ambition, because if it fails then they can walk away…but the club is saddled with debt…but when it stops people from putting money in by way of equity, then I think we've gone down the wrong route.' (Informant 1)

> 'There has to be an amount of business foresight in how you operate because you don't want to restrict [investment] to the point where it hampers growth of the industry.' (Informant 4)

In this way it was argued that FFP didn't consider whether investment was sustainable, 'If there was willingness for the sugar daddies or the big benefactors to put their money in then why restrict that as long as it's sustainable, and that's the key' (Informant 6). Informant 9 concurred,

> 'There have been situations in the past where owners have provided soft loans that they do expect to be repaid, or owners who cannot really afford that amount of loan then stop the funding without any proper plan in place to see how the club can sustain. It's those situations where something needs to be looked at. The other side of the coin are owners who genuinely can provide loans to the club; who want to ensure that the club is sustainable going forward; and are not looking for repayment of the loan…in the next three, five, ten years.' (Informant 9)

It was explained that restricting investment in this way might also cause problems for a new owner eager to make a good impression with supporters,

> 'There's quite a lot of pressure on new owners when they come in to actually put their money where their mouth is…So you rarely see new owners coming in and not putting in any money at all, because they'd quickly fall out of favour with the fans.' (Informant 6)

Informant 6 also pointed out that sustainable investment by a wealthy owner could have a positive impact on a club and its local economy,

> 'Whatever people feel about the investment by Abu Dhabi in Manchester City, it's been fantastic for this region. You wouldn't see Manchester City Council complaining about it…Whilst these clubs are all making huge losses they pay massive amounts in PAYE and NIC. Manchester City is one of the biggest tax payers in the region. Not to mention VAT as well on £300 million of investment in infrastructure.' (Informant 6)

4.9.10 Maintaining the status quo in European club football

The introduction of FFP meant expenditure was constrained by revenue regardless of how much an owner was willing to invest in a club. Even with the acceptable deviation and maximum equity contribution several informants were concerned this would make it difficult to challenge the existing 'Hierarchy of European football' (Franck 2013:5), 'We felt UEFA's requirements of a €45 million loss over three years going down to €30 million was too restrictive and locked the established order' (Informant 4). As a consequence use of the word 'fair' was criticised, 'FFP rules…don't create a level playing field…as it locks in the old order. Not every club can spend the same amount of money. FFP is not fair play, it's a misnomer' (Informant 3).

Several suggested FFP favoured the largest clubs in Europe and in the short to medium term this would have an adverse impact on competition,

> 'I think the aim of FFP is not a competitive balance one…It is one where if you are an established club that has large revenue streams and you can balance that against a large cost base, then you are at an advantage.' (Informant 5)

> 'As soon as you…limit the ability of ambitious clubs to spend, then what you're doing is to put in concrete the pecking order because the most successful clubs always have the most income which enables them to spend most. As soon as you stop the ability of the aspiring clubs to spend you're limiting competition.' (Informant 1)

It was suggested this had been a deliberate strategy by UEFA to make FFP more acceptable to Europe's largest clubs,

> 'I'm sure some of the big clubs had an influence, Barcelona, Real Madrid, potentially Manchester United. And that's not a surprise to some extent, because for want of a better description, the regulator is trying to protect their brand so it's important that they keep those big clubs onside.' (Informant 6)

These arguments ignored that it was often smaller clubs with aspirations to play in the EPL or European competition that experienced severest financial difficulties. These were the clubs that FFP was trying to protect through break-even and acceptable deviations. It was also explained that,

> 'In FFP competitive balance is not one of the stated objectives. I guess over time if you get more clubs that are stronger and have great facilities and strong youth development systems then more well-run clubs should encourage better, broader, competition…between clubs. But there is no stated objective to level the playing field or achieve some extra degree of competitive balance.' (Informant 2)

During our conversation Informant 9 explained that his club was in discussion with UEFA for breaching FFPR. He pragmatically reasoned that,

> 'It will take a while before they [UEFA] get the right set of rules and guidelines in place and before everybody agrees that it's fair, in that clubs that do want to compete and do have the resources to compete are allowed to compete effectively with a club that's already established.' (Informant 9)

4.9.11 Investment in youth development and infrastructure

Since investment in infrastructure is excluded from FFP calculations, it was pointed out that wealthy owners were still able to invest significant amounts so long as they took a long-term perspective,

> ‘The rules allow certain costs to be unlimited in terms of investment in facilities…There is also a tolerable level of losses…So owners can still invest considerable amounts of funds…and remain within these rules…the rules are just trying to direct some of that funding more towards longer term development of individual clubs and their facilities rather than all the cash being splashed on short-term players’ wages and transfer fees.’ (Informant 2)

However it was argued that a wealthy owner would not want to spend heavily on infrastructure without first being allowed to invest in playing success,

> ‘You’re not going to invest in facilities if you have no success on the pitch, are you? You are going to invest your money where it makes the biggest impact, and that of course is on the pitch. So you have to have playing success before you can start to build the infrastructure around it.’ (Informant 7)

Informants expressed differing opinions about whether FFP had encouraged investment in youth development,

> ‘It has helped…that expenses or costs incurred in relation to youth expenditure is exempted from FFP…That’s one of the reasons why we realised that we need more emphasis on the academy side of things to ensure that we generate the revenues and profits from player sales going forward.’ (Informant 9)

It was also explained that relying on youth development rather than buying in proven players was a risky strategy,

> ‘For all clubs that type of policy of recruiting externally and not developing your own players has been reversed but there is still huge emphasis on buying the finished product rather than managers in the PL risking putting in younger players...FFP and PL rules allow you to lose a fairly significant sum, so the actual element of youth development is fairly small in comparison to the rest of the costs. But certainly by removing it from the FFP calculation encourages clubs.’ (Informant 8)

Concern was expressed that the current system favoured the largest clubs who could purchase players from youth academies too cheaply. It was argued this didn't encourage smaller clubs to invest in youth development,

> 'We train the players up and they've all got a price tag on their heads and the big clubs can just come in and pay the price, and the price is too low and we lose a player. If there was a more realistic figure then we would significantly invest…So at the moment the system is not right. There needs to be an adjustment to the compensation…it's around £200,000 that another club can pick up your player for. It's not a lot of money for a player because the academy (gross) costs around £3 million per year and we are probably the lowest spenders in the EPL.' (Informant 3)

There was also criticism that FFP didn't require clubs to disclose more information related to expenditure on youth academies, 'There isn't a public disclosure as a requirement about how much clubs spend on youth development…How much does it cost to run the youth scheme? What if a coach does half his time with the first team and half his time with the youth team?' (Informant 2)

It was also pointed out that a club might get into financial difficulties through spending too much on infrastructure projects,

> 'I find that a bit bizarre though. You can spend as much as you want on infrastructure and the academy; that still might make you financially insecure. So it's slightly counter intuitive in terms of the way that's operated, but you understand what they [UEFA] are trying to do. They're trying to just flip it around a bit to get that sensible strategy for the future. And it does allow sugar daddies to invest in clubs as long as they take the long-term view.' (Informant 6)

4.10 Penalties for non-compliance with FFP

Even before the introduction of FFP a huge amount of discussion centred on whether UEFA would exclude the best supported clubs from European competition for non-compliance, 'You need your star names in those competitions so restricting them playing…is a really difficult

decision for them to take and I'm not sure that it's the right thing to do' (Informant 1). Elite informants concurred with this view and explained that exclusion of the best supported clubs might adversely impact on spectator interest in European competitions and could result in lengthy legal battles,

> 'It's an impossible situation where you might have Real Madrid, Barcelona, Manchester United, Manchester City all being effectively embargoed. It just defies belief that they [UEFA] would allow that situation.' (Informant 7)

> 'If you have a jewel in your crown you're not going to throw it away…you wouldn't do it because it will devalue your asset. Secondly it's going to be fraught with legal difficulties.' (Informant 4)

For these reasons elite informants believed UEFA was more likely to impose financial penalties,

> 'It's difficult because you want strong penalties for breaching the rules, but at the same time you also need those teams in the competition. So financial penalties…they have got to be sufficient but once you start suspending clubs from competitions it becomes very difficult and the consequences could be significant.' (Informant 1)

> 'I don't think they would exclude them from a competition…it would be counter-productive for UEFA. We've seen what they've done with PSG and Manchester City…So I don't think they would go so far as to ban the elite teams.' (Informant 9)

It was also acknowledged that excluding the best supported clubs from European competition might lead to these clubs breaking away and forming their own European super league,

> 'If all the clubs got together and said…"We'll set up our own competition." That's the difficulty.' (Informant 7)

> 'There's even the possibility of…a break away European League that's not sanctioned by UEFA. I don't think it will happen but if that's the case there's no UEFA FFP anymore.' (Informant 5)

> ‘They’ve been talking about that for about 10 years…I personally can’t see it, but who knows? Money talks. I suppose when the EPL was set up and broke away from Division 1, people were a bit shocked at that and didn’t think it would happen, but it did.’ (Informant 6)

Settlement agreements meant there were several types of penalties for non-compliance with FFP and exclusion from competition was the last resort,

> ‘I think one of the most pragmatic and sensible ideas that UEFA had…was the settlement agreements that they drafted into their disciplinary provisions…If you admit to the breach or agree to a whole host of sanctions that doesn’t include expulsion, ie: the nuclear option, then you can still participate in competition. From the UEFA side it shows that the regulations have teeth and there are severe sanctions in place. Both sides though they might begrudge it, still effectively come out on top. Clubs manage to still play in the Champions League; still manage to get good revenues; still manage to attract players because they’re in the Champions League; and UEFA’s regulations bite and show they have some force even if it’s not the nuclear expulsion option.’ (Informant 5)

Informant 2 concurred and explained that UEFA’s application of sanctions to date showed exclusion was only required for the most severe breaches,

> ‘I think there was a lot of scepticism before the rules came in about whether UEFA would…carry through the rules that they had put in place. And so far they have shown that they monitor clubs and where necessary they sanction clubs and come to these settlement agreements…to make sure these rules are actually enforced.’ (Informant 2)

A review of settlement agreements and the penalties imposed on clubs showed how seriously UEFA viewed breaches of FFP. The number of clubs sanctioned since 2014 is shown in table 4.33 and we can see that rather than excluding clubs from UEFA competitions settlement agreements have instead imposed penalties including fines, restrictions in prize monies and squad size, and upper limits on transfer spending (UEFA 2017).

Where the investigatory chamber has been unable to reach a settlement agreement, cases have been referred to the adjudicatory chamber and up to June 2017 this had resulted in 22 clubs being excluded from UEFA competitions for non-compliance with FFPR. Most of these cases related to overdue payments rather than non-compliance with break-even.

Year	Settlement agreements		Adjudicatory Chamber Decisions		
	Total	Non-exclusion penalties	Total	Exclusion from UEFA competition for non-compliance with:	
				Break-even	Overdue payments
2014	9	9	6(i)	0	5
2015	14	14	13(ii)	2	9
2016	4	4	4	1	3
2017 (up to June)	1	1	3(iii)	1	1
Total	**28**	**28**	**26**	**4**	**18**

Table 4.33: Number of clubs sanctioned for breaches of FFP rules up to June 2017
Note:
(i) The panel dismissed the case against FC Dnipro (UEFA 2017)
(ii) Burnaspor and FC Honka had potential bans lifted after overdue payments were settled within given deadlines (UEFA 2017)
(iii) Case dismissed against RB Leipzig / FC Salzburg (UEFA 2017)
(Source: Summarised from UEFA 2017)

Although the scale of several recent commercial transactions made it more difficult to question fair values, a review of settlement agreements indicated that UEFA had investigated and commented on the fair values of some commercial transactions. This included those between Manchester City and Etihad Airways (UEFA 2017:Manchester City) and FC Dynamo Moscow and VTB (UEFA 2017:Dynamo Moscow).

4.11 EPL financial regulations

It was explained that following the introduction of FFPR and their subsequent adoption by the EFL,

> 'The PL was caught in a situation where above them UEFA had the FFP structure; the FL had financial fair play rules established; so the PL was sat in the middle without any financial fair play rules which didn't really make an awful lot of sense.' (Informant 8)

The EPL initiated greater financial regulation through STCC during 2013-14 (Premier League 2015:107) and Profitability and Sustainability rules from 2015-16 (2015:113),

> 'Ultimately we recognise that losses year after year are not a good thing. But because profit is not necessarily the owner's only motive for owning a football club, then you have to allow for that. What we should assess the club on is its ability to operate within what is available to it, including the owner's finances…At that time we had Fulham in the EPL and Al Fayed could have said "I want to put £300 million into the club and compete for the top honours"…They would not have been able to do that and still make a profit.' (Informant 4)

So long as there was evidence that sufficient funding was in place, EPL rules enabled clubs to report much larger losses over each monitoring period than under FFP. In this way it was argued that they considered the sustainability of funds provided by owners,

> 'What our rules say is if you make losses of up to £15 million over three years…we will scrutinise budgets and financial information that we receive in advance of the season and establish whether these losses…impact on the club's ability to remain a going concern…If it makes losses of more than £15 million up to £105 million over three years, the owners must provide evidence of secure funding for at least the next two years…So that's how the EPL has met the challenge of clubs not necessarily making profit.' (Informant 4)

4.12 Case studies

Having considered aggregate performance the next stage of this analysis looked in more detail at a sample of clubs that played in the EPL during 2004-15. This allowed examination of the different ways in which clubs operated from a financial perspective.

Accounting year ended	Revenue	Wages	Wages / Revenue	PBT or (LBT)	Revenue / Debt	Revenue / Hard debt	Equity
	£m	£m	%	£m			£m
EPL aggregate							
2011	2,296.9	1582.1	69	(355.1)	0.8	2.1	465.0
2012	2,346.4	1,626.7	69	(202.9)	0.9	2.3	712.9
2013	2,549.1	1,776.2	70	(285.8)	0.9	2.5	536.9
2014	3,249.4	1,884.7	58	196.3	1.2	3.5	1,047.2
2015	3,354.9	1,881.9	60	113.7	1.2	3.2	1,281.7
Manchester Utd							
2011	331.4	152.9	46	29.7	0.7	0.7	810.6
2012	320.3	161.7	50	(4.7)	0.7	0.7	821.7
2013	363.2	180.5	50	(3.0)	0.9	0.9	882.9
2014	433.2	214.7	50	41.2	1.3	1.3	934.1
2015	395.2	202.4	51	(2.3)	0.9	0.9	891.8
Arsenal							
2011	255.0	124.4	49	14.8	1.0	1.0	268.0
2012	240.1	143.4	60	36.6	1.0	1.0	297.5
2013	278.8	154.5	55	6.7	1.1	1.1	303.4
2014	301.4	166.4	55	4.7	1.3	1.3	310.6
2015	343.7	192.2	56	24.7	1.5	1.5	330.7
Manchester City							
2011	153.2	174.0	114	(197.5)	1.9	2.1	272.7
2012	231.1	201.8	87	(98.7)	3.1	3.3	326.4
2013	271.0	233.1	86	(51.6)	4.0	4.0	435.3
2014	346.5	205.0	59	(22.9)	4.7	5.2	572.3
2015	351.8	193.8	55	10.4	4.9	5.3	676.3
Chelsea							
2011	225.2	191.2	85	(78.3)	0.3	15.2	(617.9)
2012	259.3	172.9	67	(4.3)	0.3	n/a	(622.4)
2013	260.1	178.5	69	(57.2)	0.3	n/a	(678.1)
2014	324.4	191.8	59	14.9	0.3	n/a	(664.6)
2015	319.5	217.1	68	(33.7)	0.3	n/a	(697.6)

Table 4.34: Key performance indicators for four of the largest clubs in the EPL 2011-15
(Source: Figures obtained / calculated from financial statements 2011-15 for Arsenal Holdings plc; Red Football Ltd (Manchester United); Fordstam Ltd (Chelsea); Manchester City Ltd)

Table 4.34 considers the four clubs in the EPL that enjoyed most playing success during the sample period. The performance indicators are those that best demonstrate compliance with FFP and EPL rules. Analysis showed that a variety of financial strategies were employed in pursuit of playing success.

4.12.1 Manchester United

Since the EPL commenced in 1992 Manchester United has consistently reported the highest revenues and enjoyed most playing success. We have already established that during 2004-15 growth in revenue was driven by increased gate receipts arising from the expansion of Old Trafford; increased broadcasting revenue from playing success which included participation in the Champions League in every season between 2004-14; and spectacular commercial and sponsorship agreements that took advantage of the club's global brand. Cash and cash equivalents of £156 million in 2015 (Red Football 2015:17) meant Manchester United had no liquidity issues.

Although wages increased from £153 million in 2011 to £215 million by 2014, growth in revenue meant this remained at around 50% of revenue (Table 4.34). Failure to qualify for the Champions League saw revenue decline by 9% in 2015 (Calculated from table 4.34) and underlined the importance of regular participation in European competition for the largest clubs.

As we have already established servicing debt placed a huge financial burden on the club and meant that although Manchester United reported a PBIT in all but one-year, large amounts of interest payable often turned this into a small LBT (Table 4.34). Although around £150 million was raised from a part-floatation on the New York Stock Exchange in August 2012, just £68 million (Red Football 2013:15) was used to reduce debt. By 2015 Manchester United's revenue of £395 million was the highest in the EPL, however loans of £417 (Calculated from Red Football 2015:15) resulted in a revenue / hard debt ratio of less than one (the lowest in the EPL).

Despite significant amounts of net interest payable the club continued to purchase new players and by 2015 players' registrations of £238 million (2015:39) were the largest in the EPL, which further enhanced the club's brand.

In establishing break-even, FFP initially considered financial performance from the accounting year ended 2012. From table 4.34 we can calculate that during accounting years ended 2012-15 Manchester United made a cumulative PBT of £31 million. It should be noted that the profit figures in table 4.34 include all costs and revenues. UEFA's break-even calculation excludes certain expenses related to improvements in infrastructure including youth and community development activities. Removing these expenses would result in higher profits (smaller losses) than those shown in table 4.34 and indicated that despite significant debt Manchester United had few problems meeting the break-even requirement of FFP. Since growth in wages was funded by increased commercial revenue, Manchester United was also able to comply with STCC.

Our analysis suggested that without growth in revenue the leveraged buyout model used by the Glazer family would almost certainly have reduced the funds available for investment in players, and it is likely this would have adversely impacted on both playing success and Manchester United's global brand.

4.12.2 Arsenal

Investment in the Emirates stadium saw growth in Arsenal's matchday receipts. Participation in the Champions League generated additional broadcasting revenue and raised further the club's global profile helping to attract lucrative commercial contracts particularly with Emirates and Puma. In addition Arsenal generated cumulative revenue of £448 million from the sale of property built on the site of its former stadium (Calculated from Arsenal Holdings plc financial statements 2004-15).

Despite wages increasing from £124 million in 2011 to £192 million by 2015 (Table 4.34), growth in revenue meant the wages / revenue ratio remained below the EPL average; and although interest payable on debt became a significant expense after 2007, Arsenal was the

only club in the EPL that reported a pre-tax profit in each year from 2004-15 (Arsenal Holdings plc financial statements 2004-15).

Arsenal won the PL in 2004 and qualified for the Champions League in every season during 2004-15, however supporters suggested that servicing high levels of debt prevented further playing success. Others were critical that the club maintained large cash balances that could have instead been used to acquire new players. By 2015 Arsenal had cash and cash equivalents of £228 million (Arsenal Holdings plc 2015:62), which represented 35% of the EPL's total balance (Calculated from financial statements of clubs in the EPL 2015). Despite these criticisms by 2015 players' registrations were valued at £172 million (2015:50), the fourth highest in the EPL.

Good control of key costs meant Arsenal reported a pre-tax profit and achieved playing success in the form of qualification for the Champions League in every year under review. This suggested the directors balanced playing success with good financial performance, and it could be argued that Arsenal was the only club in the EPL to have successfully followed this strategy. Financial performance from 2012 ensured compliance with FFP, and since growth in wages from 2013 was funded from increased commercial revenue Arsenal also met the requirements of STCC.

4.12.3 Manchester City

During our sample period Manchester City saw the greatest changes in terms of financial resources and playing success. Up to 2007 revenue stagnated at around £60 million (Manchester City Ltd 2007:18) as the club struggled to become established in the top half of the EPL; and falling attendances saw matchday receipts decline from £17 million in 2004 (Manchester City Ltd 2005:23) to less than £14 million by 2007 (Manchester City Ltd 2007:18). Losses would have been much higher without a £19 million surplus from player trading in 2006 (Manchester City Ltd 2006:17).

By 2007 hard debt included £44 million secured against future matchday revenue, and £42 million related to the finance lease used to acquire the 'City of Manchester' stadium

(Manchester City Ltd 2008:25). Interest payable on this worsened losses and left the club in a vulnerable financial position.

In July 2007 UK Sports Investments Ltd acquired Manchester City (2008:7) in a deal funded by Thaksin Shinawatra, the former Prime Minister of Thailand. However his financial problems meant Manchester City was sold to ADG in September 2008 (2008:7). There followed a period of heavy expenditure as ADG sought immediate playing success, and this resulted in significant growth in revenue over a very short period of time.

Although a large proportion of additional commercial revenue was from Etihad Airways, playing success including regular participation in the Champions League, enabled broadcasting revenue to grow to £135 million by 2015 (Manchester City Ltd 2015:43). However huge investment in players meant wages and amortisation exceeded revenue in each year from 2009-13 (Calculated from Manchester City Ltd financial statements 2009-13), and Manchester City reported some of the largest losses seen in English football including £198 million in 2011 (Table 4.34).

Rather than providing soft loans ADG funded the club's spending through investing in share capital (Table 4.34). The scale of investment was illustrated by a review of financial statements which showed the value of players' registrations had increased from less than £10 million in 2007 (Manchester City Ltd 2007:16) to £194 million by 2015 (Manchester City Ltd 2015:49). Over the same period investment in infrastructure projects meant tangible non-current assets increased from £182 million (Manchester City Ltd 2007:16) to £407 million (Manchester City Ltd 2015:50).

The strategies followed by ADG from 2008 achieved almost immediate playing success but required massive up-front investment in players. Cumulative losses from 2012-14 amounted to £173 million (Calculated from table 4.34) and even though some expenditure was related to improvements in infrastructure and hence excluded from break-even calculations, Manchester City was punished heavily by UEFA for non-compliance with FFP. Increased revenue and tighter control of costs meant Manchester City reported a pre-tax

profit in 2015 (Table 4.34). STCC was achieved as wages declined from £233 million in 2013 to £194 million in 2015 (Table 4.34), though this exceeded the revenue of all but the six largest clubs in the EPL.

4.12.4 Chelsea

Chelsea's strategy was similar to that employed by ADG at Manchester City in that owner Roman Abramovich provided the financial resources necessary to achieve playing success. Huge expenditure on players' costs meant that during the period 2004-15 Chelsea made a cumulative pre-tax loss of £759 million (Calculated from financial statements of Fordstam Ltd 2004-15). To ensure continued playing success coaching staff were changed on a regular basis, and termination payments during this period exceeded £68 million (Calculated from financial statements of Fordstam Ltd 2004-15).

Abramovich funded Chelsea through soft loans on which no interest was payable, and when combined with cumulative losses meant by 2015 liabilities exceeded assets by almost £700 million (Table 4.34).

From table 4.34 we can calculate that between 2012-15 Chelsea reported a cumulative loss of £80 million, though some of this was due to players' contracts agreed before 1 June 2010 and improvements to infrastructure, and these amounts are excluded from the FFP break-even calculation. In order to at least meet the acceptable deviation, Chelsea must further increase revenue and demonstrate better control of key costs. Chelsea's proposed new stadium will increase matchday receipts and costs of building this will be excluded from FFP calculations. FFP will also impact on the way in which Abramovich funds Chelsea, and in future losses above €5 million will need to be matched by a rise in equity rather additional soft loans. Growth in commercial revenue from 2014 onwards enabled compliance with STCC.

Now let us consider financial performance for a sample of clubs that had different measures of playing success. Again the performance indicators shown in table 4.35 are those that best indicate compliance with FFP and EPL rules. In addition annual surpluses and deficits arising from player trading are included.

Accounting year ended	Revenue	Wages	Wages / Revenue	Surplus / (Deficit) from Player trading	PBT or (LBT)	Revenue / Debt	Revenue / Hard debt	Equity
	£m	£m	%	£m	£m			£m
Aston Villa								
2011	92.0	83.4	91	18.8	(54.0)	0.7	7.5	(19.7)
2012	79.8	69.6	87	26.9	(17.6)	0.5	5.4	(32.4)
2013	81.7	71.9	88	(0.3)	(51.8)	0.4	6.0	(84.2)
2014	111.2	69.3	62	1.7	(4.0)	1.0	6.2	2.1
2015	113.2	83.8	74	0.4	(27.8)	3.7	5.6	66.7
Everton								
2011	82.0	58.0	71	7.4	(5.4)	1.7	1.7	(35.2)
2012	80.5	63.4	79	14.1	(9.1)	1.7	1.7	(44.3)
2013	86.4	63.0	73	15.6	1.6	1.8	1.8	(42.7)
2014	120.5	69.3	58	28.2	28.2	2.5	2.5	(14.5)
2015	125.6	77.5	62	3.3	(4.1)	3.1	3.1	(18.5)
Newcastle Utd								
2011	88.5	53.6	61	36.7	32.6	0.6	n/a	(35.9)
2012	93.3	64.1	69	6.5	1.4	0.7	n/a	(34.6)
2013	95.9	61.7	64	10.6	9.9	0.7	21.4	(24.7)
2014	129.8	78.3	60	14.0	18.8	1.0	n/a	(5.9)
2015	128.8	65.1	51	17.1	36.1	1.0	n/a	26.5
WBA								
2011	65.1	43.9	67	5.6	18.9	14.2	26.9	22.8
2012	66.7	50.5	76	6.0	0.4	20.4	58.5	22.5
2013	69.7	54.0	77	3.1	6.0	9.9	14.8	27.8
2014	86.8	65.5	75	9.6	12.8	15.1	23.9	38.6
2015	96.3	69.8	73	5.3	3.7	44.0	n/a	39.9
Wigan								
2011	50.5	40.0	79	2.3	7.2	0.69	1.64	(65.1)
2012	52.6	37.7	72	7.9	4.3	2.00	3.62	(12.9)
2013	56.4	43.7	77	8.2	0.8	2.73	4.6	(12.1)

Table 4.35: Key performance indicators for a sample of clubs in the EPL 2011-15
(Source: Figures obtained / calculated from financial statements 2011-15 for Reform Acquisitions Ltd (Aston Villa); Everton FC Ltd; Newcastle United Ltd; WBA FC Ltd; Wigan Athletic AFC Ltd)

4.12.5 Aston Villa

Following his acquisition of Aston Villa in 2006, Randy Lerner initially provided the funds necessary to acquire new players through a combination of equity and soft loans. This saw the value of players' registrations increase from £14 million in 2004 (Aston Villa plc 2005:29) to £68 million by 2010 (Reform Acquisitions Ltd 2010:20). However from 2010 onwards the best players were often sold for large surpluses (Table 4.35) and by 2015 players'

registrations had declined to £31 million (Reform Acquisitions Ltd 2015:21). This strategy made playing success increasingly difficult to achieve, and as the club struggled to remain in the EPL matchday receipts fell from £23 million in 2009 (Reform Acquisitions Ltd 2010:16) to £14 million by 2015 (Reform Acquisitions Ltd 2015:16).

In each year from 2009-13 wages and amortisation exceeded revenue, and changes in coaching staff from 2011 onwards cost the club over £23 million in termination payments (Calculated from Reform Acquisitions Ltd financial statements 2004-15). Losses would have been even larger without surpluses from player trading (Table 4.35). By 2015 broadcasting accounted for 63% of revenue (Figure 4.5).

The club's poor financial performance meant Lerner waived his right to interest of £20 million in 2012 (Reform Acquisitions Ltd 2012:2), and in 2013 and 2014 he converted loans of £90 million (Reform Acquisitions Ltd 2014:27) and £85 million (Reform Acquisitions Ltd 2015:27) into share capital greatly improving the club's equity and liquidity positions.

The strategies employed by Lerner were ultimately unsuccessful in terms of both financial performance and playing success. Poor control of costs meant cumulative pre-tax losses from 2012-15 amounted to £101 million (Calculated from Table 4.35), making it difficult to comply with FFP. However growth in commercial revenue and surpluses from player trading meant STCC was achieved. In 2014 Lerner put Aston Villa up for sale (Reform Acquisitions Ltd 2014:2). However by June 2015 no buyer had been found (Reform Acquisitions Ltd 2015:2) which further increased financial uncertainties surrounding the club.

4.12.6 Everton

Declining stadium utilisation meant Everton's matchday receipts remained static rising from £16 million in 2004 (Everton FC Ltd 2004:19) to £18 million in 2015 (Everton FC Ltd 2015:72). This meant growth in revenue was driven almost entirely by broadcasting which increased from £21 million (Everton FC Ltd 2004:19) to £82 million (Everton FC Ltd 2015:72).

A review of financial statements showed that over the duration of each three-year broadcasting contract, growth in revenue was used to fund increased expenditure on wages

and amortisation. As a consequence in several years wages and amortisation exceeded 90% of revenue, and without a wealthy benefactor Everton was reliant on borrowed funds that were secured on future matchday and broadcasting revenue. Low levels of equity accompanied by cumulative losses meant Everton operated with negative equity in all but one year.

Although the value of players' registrations increased from £18 million in 2004 (Everton FC Ltd 2005:21) to £53 million by 2015 (Everton FC Ltd 2015:75), Everton rarely purchased players for large transfer fees. Instead the club preferred to pay smaller amounts for players with potential or nearing the end of their careers. In addition several players were developed though the club's youth academy. The club's weak financial position meant it was often forced to raise funds through the sale of players (Table 4.35) and during 2004-15 this strategy restricted cumulative losses to £11 million (Calculated from financial statements of Everton FC Ltd 2004-15). However this made it increasingly difficult for Everton to achieve improved playing success which brought criticism from supporters.

A cumulative PBT of £17 million since 2012 meant compliance with FFP (Table 4.35). Although wages increased from £63 million in 2013 (Everton FC Ltd 2013:63) to £78 million in 2015 (Everton FC Ltd 2015:74), this was funded through a combination of growth in commercial revenue and surpluses from player trading, ensuring STCC was achieved.

4.12.7 Newcastle United

In terms of revenue Newcastle was consistently the largest club outside the top six. However playing success proved elusive and by 2013 revenue was just £6 million higher than 2004 (Calculated from Newcastle United Ltd 2005:22 and 2013:5), and Newcastle had lost touch with the six largest clubs in the EPL.

Although in 2015 Newcastle attracted over 50,000 supporters to each home game (Newcastle United Ltd 2015:2), matchday receipts of £27 million (2015:13) made up just 21% of revenue (Figure 4.5). Broadcasting of £77 million (2015:13) accounted for 60% of revenue (Figure 4.5), while commercial revenue fluctuated and was adversely affected by the club's relegation from the EPL in 2009.

Until 2007 Newcastle had loans including £45 million secured against future matchday receipts and £17 million secured against future broadcasting and sponsorship revenue (Newcastle United Ltd 2007:33). The club was acquired by Mike Ashley in July 2007 (2007:2), and he immediately replaced this with an interest free loan. By 2012 Ashley had provided loans of £129 million (Newcastle United Ltd 2012:21), though his stated intention for the club 'To operate without reliance on external bank debt or additional financial support from our owner' (2012:2) meant he was not classed as a sugar daddy.

Although Newcastle did finish as high as fifth in the EPL, sustained playing success was not achieved. From 2011 Newcastle's strategy involved acquiring players for relatively small transfer fees; developing these players; and selling them for large surpluses (Table 4.35). Accompanied by tight control of wages, this enabled Newcastle to report a PBT in each year from 2011 (Table 4.35). Although this strategy greatly improved financial performance and ensured compliance with FFP and STCC, lack of playing success brought Mike Ashley into conflict with supporters and he twice tried to sell the club. Newcastle illustrated the difficulties in balancing playing and financial success, and that conflict can arise when supporters perceive that financial success is being prioritised above sporting success.

4.12.8 West Bromwich Albion (WBA)

Although WBA spent eight years in the EPL, the club was relegated twice before becoming established. This suggested the owner was not willing to spend excessive amounts to remain in the EPL.

Growth in revenue was driven by broadcasting which by 2015 amounted to 81% of total revenue (Figure 4.5). Stadium capacity of around 25,000 (2015:3) meant matchday receipts in 2015 amounted to just £8 million (2015:12); and with the club struggling to attract the largest sponsors, commercial activities generated just £11 million (2015:12). These figures represented a fraction of the amounts earned by Manchester United and Arsenal.

Although wages increased from £20 million in 2005 (WBA FC Ltd 2005:11) to £70 million by 2015 (WBA FC Ltd 2015:13), low amortisation and surpluses from player trading helped the club report a PBT in each season after 2011.

For WBA playing success was becoming established in the EPL, and over time there is evidence that the club changed its player acquisition strategy to achieve this. In 2006 and 2009 the club appeared to spend relatively large amounts buying players. However relegation resulted in impairment charges that saw the value of players' registrations fall by £9 million (WBA FC Ltd 2006:12) and £18 million (WBA FC Ltd 2009:12) respectively.

From 2011 onwards the low carrying value of players' registrations indicated that WBA did not spend large amounts on players' registrations, instead preferring to acquire experienced players on free transfers. This enabled the club to pay higher wages (which is evident from the increasing wages / revenue ratio) and meant by 2015 only Burnley had a lower value for players' registrations.

Low levels of debt meant interest receivable exceeded interest payable, and cumulative profits saw equity increase. Although by 2015 WBA had spent five consecutive years in the EPL, with limited resources to invest in players and reliance on broadcasting revenue it remained in a precarious financial position. Growth was organic and relatively slow, and demonstrated the problems faced by promoted clubs in trying to become established in the EPL whilst operating within tight financial constraints. With pre-tax profits reported in each year after 2011, WBA was able to comply with the requirements of FFP; and since growth in wages was funded by surpluses from player trading WBA was also able to comply with STCC.

4.12.9 Wigan

Wigan won promotion in 2005 and with average attendances of around 20,000 (Wigan Athletic AFC Ltd 2006:2) was one of the smallest clubs to become established in the EPL. Low stadium utilisation and failure to attract large commercial contracts made Wigan very reliant on broadcasting, which by 2013 accounted for 86% of revenue (Calculated from Wigan Athletic AFC Ltd 2013:16). In each season from 2007-11, wages and amortisation exceeded revenue resulting in large losses that would have been even greater without surpluses from player trading (Calculated from financial statements of Wigan Athletic AFC Ltd 2007-11). In 2013 expenditure of £56 million on wages and amortisation (2013:16-17) was equal to revenue.

Throughout this period Wigan received significant funds from owner David Whelan, this was usually through soft debt or bank loans on which Whelan acted as guarantor. Wigan reported negative equity in every year (Table 4.35) even after Whelan converted £48 million of soft debt into share capital in 2012 (Wigan Athletic AFC Ltd 2012:14).

It could be argued that just remaining in the EPL represented playing success for Wigan. The club won the FA Cup in 2013 but was relegated at the end of that season (Wigan Athletic AFC Ltd 2013:2). Without the support of a wealthy benefactor and surpluses arising from player trading, it would have been very difficult for Wigan to remain in the EPL for more than a couple of seasons. With stadium utilisation of around 75% (2013:5) it could be argued that keeping Wigan in the EPL was a vanity project for David Whelan. Surpluses arising from player trading ensured that from 2012-13 Wigan's LBT was within FFP's acceptable deviation, whilst wages were below the threshold for STCC.

4.13 Summary

The last 20 years have seen significant growth in aggregate revenue and a change in the relative importance of revenue streams. This was driven by broadcasting contracts negotiated collectively by the EPL. With matches broadcast in 185 countries (Premier League 2015a:23) the most successful clubs attracted sizeable amounts of corporate sponsorship and this meant that despite consistently high stadium utilisation, from 2011 commercial revenue exceeded matchday income. More detailed analysis showed disparities in revenue earned by the six largest clubs when compared with the rest of the EPL. Several clubs outside the top six were very reliant on broadcasting revenue and the equitable way in which this was shared between clubs.

Despite growth in revenue, poor control of costs meant the EPL reported aggregate losses in every year up to 2013. Particularly poor control of costs was demonstrated by those clubs supported by sugar daddies, and several incurred expenditure on wages and amortisation that exceeded revenue. Analysis suggested this placed upward pressure on players' costs for all clubs. A combination of significant growth in domestic broadcasting revenue from

August 2013 accompanied by stricter financial regulation that improved control of costs, enabled clubs to report aggregate profits in 2014 and 2015.

Further analysis showed that clubs had a number of different playing objectives and these included becoming established in the EPL; regular qualification for the UEFA Champions League; and competing for the PL title. This required different financial strategies depending on a club's global fan base and the wealth of its owner. Some clubs were reliant on the profitable sale of players and employed a model that involved developing players through a youth academy or buying players for small amounts and selling these for a profit. However this was likely to impact on playing success and might lead to conflict between owners and supporters.

Several clubs in the EPL benefited from a wealthy benefactor, and the huge amounts injected into Manchester City and Chelsea showed the scale of investment necessary for sustained playing success. FFP and EPL rules mean this model is no longer available to clubs and owners.

Although by 2015 aggregate shareholders' equity was £1.3 billion, seven clubs continued to operate with negative equity (Table 4.26). This analysis showed that too many owners did not invest in equity but instead provided soft loans. Although FFP and EPL Profitability and Sustainability rules will limit the use of soft loans, they won't address existing levels of negative equity.

Chapter 5 - Discussion of results

5.1 Overview of chapter

This chapter discusses key findings from the quantitative and qualitative analysis and considers whether increased regulation was sufficient to improve financial performance. It also looks at the impact of soft budgets on financial performance in other sectors and makes comparison with banking, where regulation was used to address soft budget constraints.

5.2 Growth in revenue and cross subsidisation

Analysis of published financial statements established that throughout the period 2004-15 the EPL proved very successful in generating revenue and increasing its global audience. In 2015 clubs in the EPL reported aggregate revenue of €4.4 billion (Table 4.2). This was €2 billion more than Germany's Bundesliga (the second largest league in Europe), and amounted to 36% of revenue reported by Europe's five largest football leagues (Table 4.2).

This study established that growth in revenue was driven primarily through broadcasting contracts negotiated collectively by the EPL. The equitable way in which broadcasting revenue was distributed ensured clubs were given the resources necessary to remain competitive, creating uncertainty in the outcome of matches which further increased spectator interest in the EPL. This was consistent with the findings of Sloane (1971) who explained that without cross subsidisation there would be a decline in the level of competition which would ultimately affect both the attractiveness of matches and aggregate revenue (1971:127).

During the period 2004-15 clubs in the EPL invested over £1.8 billion in new and upgraded stadia and facilities (Calculated from Deloitte 2013:53, 2015:13, 2016:31). Despite aggregate stadium utilisation remaining above 90% in every year (Deloitte 2013:13, Premier League 2015b), the preceding analysis showed that in relative terms the importance of matchday revenue declined. Care must be taken interpreting aggregate stadium utilisation since this refers to attendances at EPL matches. Clubs have just 19 home matches in the EPL each season. Although during the 2007-8 season Manchester United won both the

Champions League and EPL, just 29 home matches and the Rugby League Super League Grand final were staged at Old Trafford (Red Football 2008:1). Given the huge fixed costs incurred by a football stadium, this represented significant under-utilisation of facilities. By way of comparison The Staples Center in Los Angeles is shared by three basketball and one ice hockey team, which means it has at least 140 matches each year; it also stages concerts and even though capacity is just 19,067, it generated $345 million in 2014 (Cave and Miller 2016). KPMG (2013) suggested that to maximise returns stadia should include a club museum, conferencing facilities, leisure facilities, restaurants, and be built within mixed use developments that might include retail outlets, office spaces and residential homes (2013:23).

The global appeal of the EPL attracted large amounts of corporate sponsorship, and since 2011 revenue from commercial activities has exceeded matchday (Figure 4.1). This was also consistent with the findings of Sloane who argued that broadcasting live matches provided an opportunity to promote football (1971:126). This reflects how clubs in the EPL were following the Media-Corporations-Merchandising-Markets-Global model depicted by Andreff and Staudohar (2000:266) or had shifted towards the 'American-style business model for professional sports' (Nauright and Ramfjord 2010:432). Growth in revenue also attracted wealthy investors who were not necessarily interested in a straightforward return on their investment (Andreff and Staudohar 2000:266).

The scale of growth in revenue (particularly broadcasting revenue) was illustrated by the Deloitte Football Money League 2016 report (Deloitte 2016a) which ranked the 30 largest clubs in world football by revenue generated during the accounting year ended 2015. The list contained 17 clubs from the EPL (Deloitte 2016a:3), highlighting how even 'small' English clubs have greater financial power than some larger European counterparts. In the accounting year ended 2015 Burnley earned revenue of £79 million (Burnley FC Ltd 2015:7). Although this was the lowest revenue reported by any club in the EPL, it was significantly higher than the £51 million earned by Scottish Premiership champions, Glasgow Celtic (Celtic plc 2016:30).

5.3 Disparities in revenue

Quantitative results showed that following the EPL broadcasting contracts which commenced in August 2013, average revenue increased to £163 million in the accounting year ended 2014 (Table 4.5). Further analysis showed only six clubs earned revenue above the average, and the standard deviation was £104 million (Table 4.5). Removing the six largest clubs from aggregate figures showed average revenue of £101 million (Table 4.5), and a standard deviation of less than £14 million indicated a much narrower spread of revenue around the mean (Calculated from financial statements of clubs in the EPL 2014). The differences in these figures clearly demonstrated disparities in revenue earned by the six largest clubs compared with the rest of the EPL.

During the period 2004-15 it was established that the six largest clubs received around 57% of aggregate revenue (Calculated from financial statements of clubs in the EPL 2004-15); and the club with the largest annual revenue usually reported an amount that was between five and six times greater than that of the lowest earning club (Table 4.5).

This research showed that commercial sponsors were mostly attracted to those clubs that enjoyed most playing success. Regular participation in UEFA club competitions (particularly the Champions League) provided additional broadcasting and matchday revenue and raised the profiles of the six largest clubs which in turn generated further revenue from the global sale of club related merchandise. This concurred with the findings of Peeters and Szymanski (2014) that regular participation in the Champions League greatly increased revenue earned by the elite of European club football and widened disparities 'in spending power' (2014:357).

Rising coefficients of variation and skewness for commercial revenue (Table 4.12) confirmed that growth in this revenue stream mostly benefited a small number of clubs. In 2015 clubs in the EPL generated aggregate commercial revenue of £983 million, 78% of which was received by the six largest clubs (Table 4.10).

From the 2017-18 season onwards, in addition to a main shirt sponsor clubs can also display the names of sponsors on the left sleeve of shirts (Slavin 2017). In March 2017 Manchester City announced that Korean tyre company Nexen would become its 'Official Sleeve Partner' for 2017-18 (Edwards 2017) in a deal worth around £5 million per year (Duncker 2017). Manchester United was believed to be in negotiation with dating app Tinder for sleeve sponsorship worth around £12 million per annum (Austin 2017). It is likely the most successful clubs will attract the largest sponsorship agreements further widening disparities in commercial revenue.

High values for the coefficients of variation and skewness indicated a wide spread of total revenue around the mean (Figure 4.6). Although disparities in revenue remained large, they did not worsen in relative terms during the period under review. This was because growth in broadcasting revenue and the equitable way in which this was distributed meant the coefficients of variation and skewness for broadcasting declined from 2011 (Table 4.12). Since broadcasting made up over 50% of revenue, the coefficients of variation and skewness for total revenue also declined (Figure 4.6).

The scale of broadcasting revenue meant clubs outside the top six in the EPL had average revenue of £104 million in the accounting year ended 2015 (Table 4.5). This exceeded the average revenue of clubs playing in the top divisions in Germany (£101 million) and Spain (£78 million) (Calculated from Deloitte 2016:9).

Although growth in broadcasting enabled clubs to remain competitive several were very reliant on this revenue stream, and by 2015 it made up 73% of revenue earned by clubs outside the top six (Figure 4.5). Despite elite informants recognising that overseas broadcasting revenue might in future be distributed using a different formula, they remained confident the EPL would continue to negotiate broadcasting contracts collectively and that revenue would grow in the short to medium term. Consequently they were mostly unconcerned that so many clubs were reliant on this stream,

> ‘There’s been that collective agreement embedded within the rules since the EPL first came into place...it’s about the strength of the competition that generates a bigger pie for everybody, and then you get a big piece of a bigger pie...I don’t hear or sense that there’s any great desire for the biggest clubs to break away from the collective deals…because it has been working fantastically well for the last 25 years.’ (Informant 2)

From 2016-17 the most recent three-year overseas broadcasting agreements generated £1.1 billion per season (Deloitte 2016:14); a significant increase on the previous contracts which earned clubs £588 million in 2015-16 (Premier League 2016). The EPL’s next domestic broadcasting contract commences in August 2019 and is comprised of 200 live matches broken down into five packages of 32 matches and two of 20 matches (Premier League 2018). The two packages of 20 contain all matches from one bank holiday and three midweek fixture programmes (Premier League 2018), allowing 10 matches to be broadcast simultaneously four times each season. In February 2018 Sky and BT acquired the five packages of 160 matches for £4.46 billion (Conn 2018), compared with £5.14 billion paid for 168 matches in 2016 (Gibson 2015). However the smaller packages were unsold at the initial auction (Premier League 2018). Following 70% increases in each of the previous two domestic broadcasting agreements a slowdown was to be expected, though further growth is anticipated in overseas broadcasting revenue (Roan 2018). If broadcasting revenue plateaus the largest clubs are likely to want changes in the way this is distributed, which is likely to widen disparities.

5.4 How a soft budget constraint impacted on financial performance

Despite growth in revenue, clubs in the EPL reported aggregate pre-tax losses in every year during 2004-13 (Table 4.13). Quantitative results showed this was primarily because growth in revenue was usually accompanied by an even larger increase in wages and amortisation (Figure 4.7). From 2019-20 clubs in the EFL will receive a share of £120 million per season from the sale of domestic broadcasting rights to Sky, a 36% increase on the previous contract (EFL 2017a). During the accounting year ended 2016, 16 clubs in the EPL reported

revenue above £100 million (Deloitte 2017:19). This huge differential encouraged clubs to spend heavily to avoid relegation from the EPL. In addition merit payments were linked to final league position and the top four clubs qualified for the Champions League, which meant there were significant financial incentives for clubs to invest large amounts in pursuit of playing success. Analysis of financial statements showed that losses worsened as revenue grew and disparities in revenue increased in size. Breaking down wages / revenue and profitability ratios (Tables 4.19, 4.20 and 4.22) showed expenditure on players' costs was driven by those clubs that received financial support from wealthy owners. In each year during 2004-13, clubs supported by sugar daddies incurred aggregate expenditure on wages and amortisation that exceeded revenue (Table 4.19). This agreed with the findings of Rohde and Breuer (2017) who explained that rising revenue differentials 'Strengthened incentives to compete among Europe's leading clubs' (2017:267); and Dietl and Franck (2007) who suggested that clubs were 'gambling on success' (2007:663). It also concurred with Fort (2000) who explained that promotion and relegation meant wealthy owners focused on win maximisation (2000:440).

Club	**Country of ownership (i)**	**PBIT / (LBIT) for accounting year ended (ii)**				
		2015	**2014**	**2013**	**2012**	**Cumulative**
		£m	**£m**	**£m**	**£m**	**£m**
Arsenal	USA	24.7	4.7	6.7	36.6	72.7
Aston Villa	USA	(26.6)	(4.0)	(51.8)	(17.6)	(100.0)
Blackburn R.	India	n/a	n/a	n/a	4.3	4.3
Cardiff	Thailand	n/a	(12.0)	n/a	n/a	(12.0)
Chelsea	Russia	(33.7)	14.9	(57.2)	(4.3)	(80.3)
Fulham	USA / Egypt	n/a	(33.2)	(2.3)	(18.3)	(53.8)
Hull City	Egypt	11.6	9.4	n/a	n/a	21.0
Leicester	Thailand	26.5	n/a	n/a	n/a	26.5
Liverpool	USA	60.0	0.9	(49.8)	(40.5)	(29.4)
Manchester City	UAE	10.4	(22.9)	(51.6)	(98.7)	(162.8)
Manchester Utd	USA	(2.3)	41.2	(3.0)	(4.7)	31.2
QPR	Malaysia	(45.7)	n/a	(65.4)	(22.6)	(133.7)
Southampton	Switzerland	(15.2)	26.3	(5.3)	n/a	5.8
Sunderland	USA	(25.5)	(16.3)	(13.1)	(31.0)	(85.9)

Table 5.1: Financial performance of clubs in the EPL under overseas ownership 2012-15
(Source: (i) UEFA 2015a:56; (ii) From financial statements of clubs in the EPL 2012-15)

This level of expenditure was not sustainable without regular injections of funds. Excessive spending on players' costs, and losses funded by soft loans confirmed that several clubs benefited from the soft budget constraint referred to by Kornai (1979), Andreff (2007), Storm and Nielsen (2012), Franck and Lang (2012), Franck (2013) and Schubert and Könecke (2015).

Rohde and Breuer (2017) explained that European football had gone through three stages; professionalism, commercialisation and internationalisation (2017:268). The final stage saw the entry of wealthy foreign investors (2017:269) who pursued riskier investment strategies in pursuit of playing success (2017:281), and this had 'A positive impact on wages and a negative impact on profits' (2017:283).

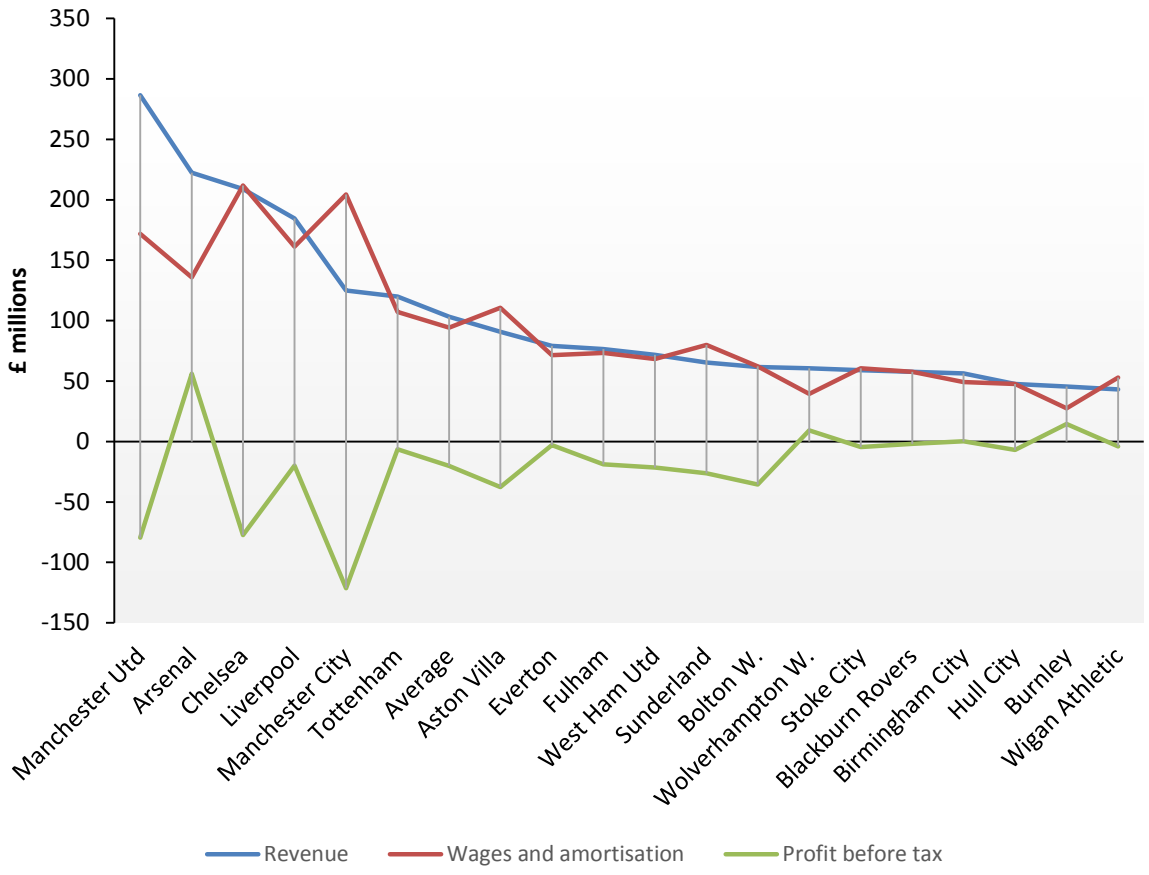
There was evidence of this during the sample period and by 2015, 55% of clubs in the EPL were under foreign ownership, the highest level in European club football (UEFA 2015a:54). Table 5.1 shows the financial performance of clubs under overseas ownership in the accounting years after FFP was introduced. Cumulative losses (and relatively small profits) provided further evidence that despite considerable investment owners were primarily interested in playing success, and this was consistent with the findings of Sloane (1971 and 2015), Arnold (1991), Storm (2011), and Zoccali (2012). It also concurred with Zimbalist (2003), Hamil et al (2010), Millward (2013) and Madden (2014) that wealthy owners were less interested in a straightforward financial return from their investment in football, and often used their clubs as a trophy asset to promote other business interests or themselves.

Following abolition of the maximum wage in 1961 (Banks 2002:163) and retain and transfer in 1978 (Szymanski and Kuypers 1999:105), the Bosman ruling in 1995 (Simmons 1997:13) completed a seismic shift in power from clubs to players. The evidence from this study showed a strong positive correlation between expenditure on wages and league points attained (Table 4.16). This was consistent with the findings of Hall et al (2002) and Szymanski (2010) and explained why during 2004-13 clubs supported by wealthy owners spent 81% of aggregate revenue on wages (Calculated from financial statements of clubs in the EPL supported by sugar daddies 2004-13). In comparison during the same period clubs

that reported a PBIT spent just 56% of aggregate revenue on wages (Calculated from financial statements of profit making clubs in the EPL 2004-13).

The preceding quantitative analysis suggested that over time the soft budget constraint provided by wealthy owners, and rising revenue differentials between the EPL and EFL meant several clubs increased expenditure on players' costs in order to remain competitive. In 2004 wages and amortisation amounted to 79% of aggregate revenue; by 2013 this had increased to 90% (Table 4.19). These findings agreed with Lago et al (2006:7), Solberg and Haugen (2010:340), Müller et al (2012:122) and Sass (2016:149).

Figure 5.1: Revenue, wages and amortisation, and profit / loss before tax by club ranked in terms of revenue (excludes Portsmouth) for the accounting year ended 2010 (Source: Financial statements of clubs in the EPL 2010)



Aggregate pre-tax losses for the EPL peaked at £385 million in 2010 (Table 4.13) when nine clubs reported expenditure on wages and amortisation that exceeded revenue (Figure 5.1); 15 of the 19 clubs that published financial statements reported pre-tax losses (Observed from financial statements of clubs in the EPL 2010); and Portsmouth went into administration (Deloitte 2010:9) and didn't publish financial statements.

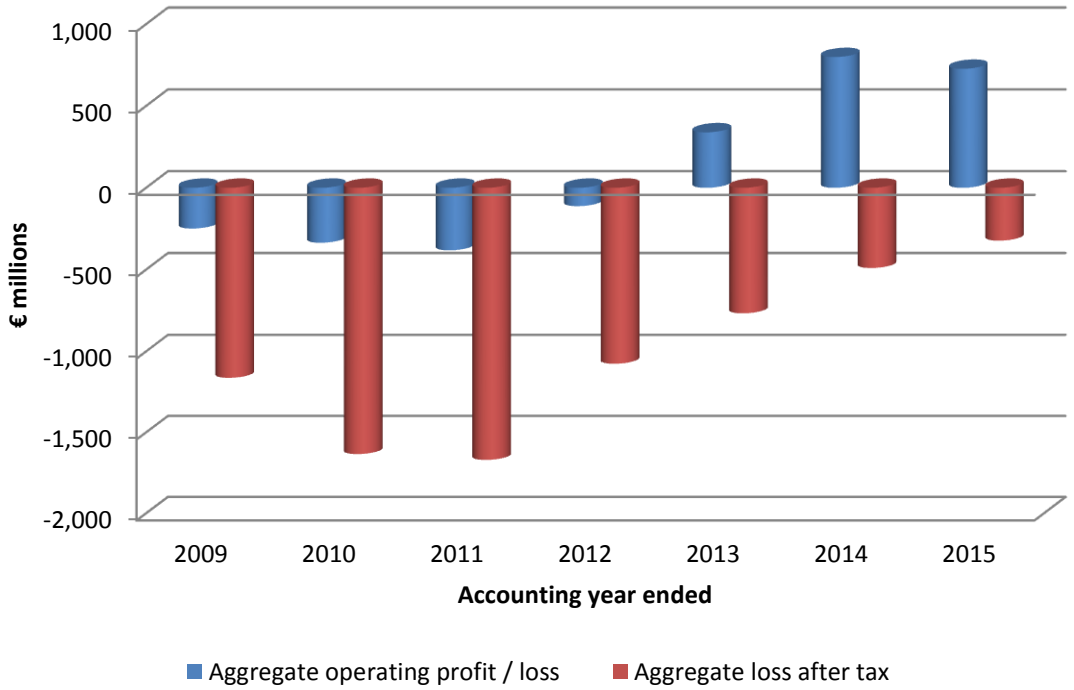
Figure 5.1 shows this poor financial performance by club and that the soft budget constraint provided by wealthy owners impacted on cost discipline by forcing all clubs to spend increasing amounts to remain competitive. This is further evidence of the 'sporting arms race' referred to by Storm and Nielsen (2012), Franck (2013), and Morrow (2013).

This research showed a strong negative correlation between profit from operations and the wages / revenue ratio, indicating that clubs must tightly control expenditure on wages in order to meet the requirements of increased regulation (Table 4.20). It also established a strong relationship between profits (or losses) from operations and cash flows from operations (Table 4.21). This meant those clubs that reported a loss from operations also experienced low or negative cash flows from operations. Such poor control of costs made these clubs reliant on additional funds from owners and related parties, or from the sale of players.

Failure to control costs meant by 2010 clubs had cumulative retained losses of almost £1.2 billion (Calculated from aggregated financial statements of clubs in the EPL 2010). This eroded already low levels of shareholders' funds and meant aggregate equity amounted to just £565 million, and 11 clubs operated with negative equity (Table 4.26). Remember also that these figures excluded Portsmouth.

The scale of losses in football leagues across Europe (Figure 5.2) meant UEFA intervened to address poor financial performance and the provision of soft budgets through tougher financial regulation. Without this intervention it is likely that aggregate losses would have persisted.

Figure 5.2: Aggregate profit / loss reported by European football leagues 2009-15 (Source: Adapted from UEFA 2015a:107 and 108)



5.5 The impact of a soft budget constraint – evidence from other sectors

Soft Budget Constraints are prominent in other sectors where organisations are considered 'too big to fail' and there are several examples where this has reduced cost discipline. Kornai (2009) examined public sector healthcare in Hungary and explained that a soft budget constraint weakened financial discipline since organisations came to rely on additional funds being made available (2009:119), which often resulted in recurring overspends (2009:122).

Kornai also considered the roles played by key stakeholders who were usually more concerned with utility maximisation (in the form of patient care) than financial performance (2009:129). To reduce waiting times for procedures, patients and the public put pressure on the government to make available additional funds (2009:123). Medical staff focused on the welfare of patients and where a bailout was expected would overspend on attaining this objective (2009:125). Although hospital managers were supposed to control spending, the

provision of a soft budget constraint meant there was no incentive to achieve this (2009:125).

His analysis has many features common to the EPL. Supporters, players and senior managers all seek playing success, and this is achievable much faster where a wealthy benefactor is willing to offer a soft budget constraint that enables a club to spend excessive amounts in pursuit of this. Schubert (2014) and Szymanski (2014) explained that many supporters welcomed investment in playing success that was funded by sugar daddies (2014:345).

Kornai (1979) observed that being protected from failure encouraged inflationary behaviour, since any increase in supplier prices was ultimately passed onto the state (or other provider of a soft budget constraint) (1979:817). There was evidence of this in the EPL, with excessive spending on players' costs by those clubs funded by wealthy owners (Figure 4.9). FFP and EPL rules will ensure that in future spending is more closely related to revenue.

Previous studies into European club football identified several examples of government assistance for clubs that had overspent. These included the decreto salva calcio in Italy (Baroncelli and Lago 2006:14); debt written off by the Spanish government in 1985 and 1991 (Barajas and Rodríguez 2010:53); and more recently the Spanish government allowing clubs to repay tax over five years (Van Rompuy 2012:3). Müller et al (2012:121) and Schubert and Könecke (2015:73) explained that sporting achievement enabled the most successful clubs to generate higher revenues and attract greater amounts of external investment. They contrasted this with funds provided by a wealthy benefactor that were not related to sporting success and encouraged excessive spending on players' costs. This distorted competition and sporting integrity and could damage the financial stability of other clubs forced to keep up with rivals (Müller et al 2012:123, Schubert and Könecke 2015:70). The preceding quantitative analysis showed that several clubs in the EPL received significant financial support from wealthy owners. These clubs often reported heavy losses in pursuit of playing success, and this meant other clubs were also required to spend larger amounts

on players' costs in order to remain competitive. As a consequence although revenue increased significantly between 2004-13, financial performance worsened as clubs used growth in revenue to fund increased expenditure on players' costs.

Freixas (2010) saw evidence of similar behaviour during the 2008 financial crisis. He explained that government bailouts demonstrated that some large banks were seen as being 'too big to fail', and the provision of a soft budget constraint for these organisations resulted in unfair competition since it allowed risky investment decisions by those banks protected from failure (2010:389). In the same way Lin and Li (2008) explained that state owned enterprises that had been privatised often remained reliant on a soft budget constraint from local and central government (2008:100). This was because without significant restructure these companies were unable to compete in the private sector. The social costs associated with restructure including redundancy and changes in pension entitlement, meant governments were prepared to offer a soft budget constraint (2008:93), which it could be argued distorted competition.

Arts Council England (ACE) provides annual funding of around £341 million to arts and culture venues and organisations (Youngs 2014). With so many demands on government funds many have questioned why public money supports projects that aren't commercially viable, and ACE was criticised for providing £14 million of emergency cash injections to theatres and galleries that hadn't generated sufficient revenue to remain in operation during the two years to March 2013 (Gardner 2015). This included eight payments totalling £1.8 million to Hull Truck theatre (Gardner 2015) and £750,000 to Northern Ballet, both of which experienced higher costs and lower than forecast revenues after moving to new premises (Youngs 2014). ACE (2016) reported that in 2014-15 arts and culture organisations received £480 million in sponsorship and donations, including £96 million from businesses and £245 million from individuals (2016:5). This meant just 48% of total income came from the sale of tickets and merchandise (2016:8). However like football clubs, arts and culture organisations are believed to have a positive impact on local communities, 'Improve

people's lives, benefit our economy and attract tourists from around the world...strengthen communities, bringing people together and removing social barriers' (GOV.UK).

The impact of the defence industry on both the US economy and national security means several companies are considered 'too big to fail' (Collopy 2004:88, Hughes 2015:5). This meant in 1971 Lockheed received a bailout of $195 million from the US government without which it was estimated 60,000 jobs might be lost (Hughes 2015:7). More recently Lockheed's F-35 programme has exceeded budget to the extent that over its life the project is forecast to cost around $1.5 trillion (Hughes 2015:8), however the size of Lockheed's supply chain means cancelation of the programme would have a significant impact on employment (Hughes 2015:11). The US government has so far agreed to purchase 2,443 F-35 jets, however to encourage better cost control the most recent order for 90 jets was at a price that was around $7 million per plane lower than previous orders (BBC News 2017a).

During the 1980s and 1990s huge losses meant several state-run airlines in Europe required government assistance to remain in operation (Doganis 2001:204). In 1980 the British government wrote off an equity investment of £160 million in British Airways (Doganis 2001:204). Between 1991-94 seven state-owned airlines in the EU received over US$12 billion in government aid including Air France ($3.6 billion), Olympic ($2.2 billion) and Alitalia (£1.7 billion) (Doganis 2001:202); and in 1995 the German government paid almost $900 million to the Lufthansa pension fund prior to the company's privatisation (Doganis 2001:204). Although EU rules permitted government aid where this was part of a restructure that would improve operational efficiency (Doganis 2001:206), bailouts were criticised by private airlines since they affected competition and rewarded poor performance (Doganis 2001:201).

In the UK, car and aircraft manufacturers employed so many people during the 1970s that companies including British Leyland, Rover and British Aerospace received huge amounts of public money, though this was not accompanied by radical reform and inefficiencies persisted (Nuttall et al 2011:1297). In 2015 Canadian aircraft manufacturer Bombardier which employed around 20,000 in the UK received a $1 billion bailout from the Canadian

government, and £135 million from the UK government (Riley-Smith 2018). The US government imposed a tariff of almost 300% on Bombardier products after Boeing accused the company of using state subsidies to undercut US manufacturers (Riley-Smith 2018), however this was overturned in January 2018 (O'Neill 2018).

Since the 1980s the provision of a number of public services in the UK has been contracted out to private sector companies. This hasn't always been successful and public funds were required following the collapse of Railtrack in 2001, British Energy in 2002, and operators of the East Coast railway services in 2007 (Nuttall et al 2011:1294). In 2013 the National Audit Office (NAO) warned that the scale of work carried out by some private sector providers meant these were '"Too big to fail" and difficult [for the UK government] to live without' (2013:10). The NAO also expressed concerns that larger providers adversely impacted on competition and innovation (2013:14). More recently the NAO was critical that Learndirect Ltd, the UK's largest commercial provider of further education (NAO 2017:2), continued to receive £121 million from the government despite being rated 'inadequate' following an Ofsted inspection in March 2017 (NAO 2017:4). The NAO concluded that the Education and Skills Funding Agency was worried that withdrawing funds was not in the best interests of Learndirect's 75,000 students (NAO 2017:8).

Despite a profit warning in July 2017 Carillion was awarded further government contracts totalling almost £1.6 billion from the Ministry of Defence and HS2 railway project (Moore 2017a). Carillion had around 450 public sector contracts including the provision of school dinners in 900 schools, hospital cleaning and prison maintenance (Davies et al 2018), and critics argued the additional contracts were awarded to help keep the company afloat (Moore 2017a). Although many thought Carillion was 'too big to fail' the government didn't provide a bailout package and the company collapsed in January 2018 with debts of around £1 billion and a pension deficit of £600 million (Davies et al 2018). There is concern that soft budgets in the form of government bailouts and subsidies stifle innovation or encourage companies to take risks, knowing they will be bailed out with public money. McCleskey (2010:22) and Moore (2017) suggested that letting Carillion fail sent a clear message to

those organisations considered 'too big to fail' and should encourage more prudent behaviour.

5.6 The effect of stricter financial regulation

Given the scale of losses it could be argued that the EPL and UEFA were slow to introduce stricter financial regulation. Following the EPL broadcasting contracts which commenced in August 2007, aggregate revenue and wages each grew by 27% during the accounting year ended 2008 (Calculated from aggregated financial statements of clubs in the EPL 2007 and 2008). The contracts from August 2010 saw revenue increase by 8% and wages by 19% in the accounting year ended 2011 (Calculated from aggregated financial statements of clubs in the EPL 2010 and 2011).

Year	Clubs reporting a PBIT			Clubs reporting a LBIT		
	Total	No. of clubs with Wages / Revenue ratio		Total	No. of clubs with Wages / Revenue ratio	
		<65%	<60%		>65%	>70%
2004	11	10	7	9	5	4
2005	14	12	11	6	4	3
2006	8	7	6	12	7	6
2007	7	7	5	13	10	10
2008	10	8	7	10	8	5
2009	7	4	4	12	10	8
2010	6	5	4	13	11	10
2011	8	6	5	12	12	10
2012	9	5	4	11	10	9
2013	10	4	2	10	8	7
2014	15	14	11	5	2	1
2015	15	9	8	5	4	3
Total	**120**	**91**	**74**	**118**	**91**	**76**

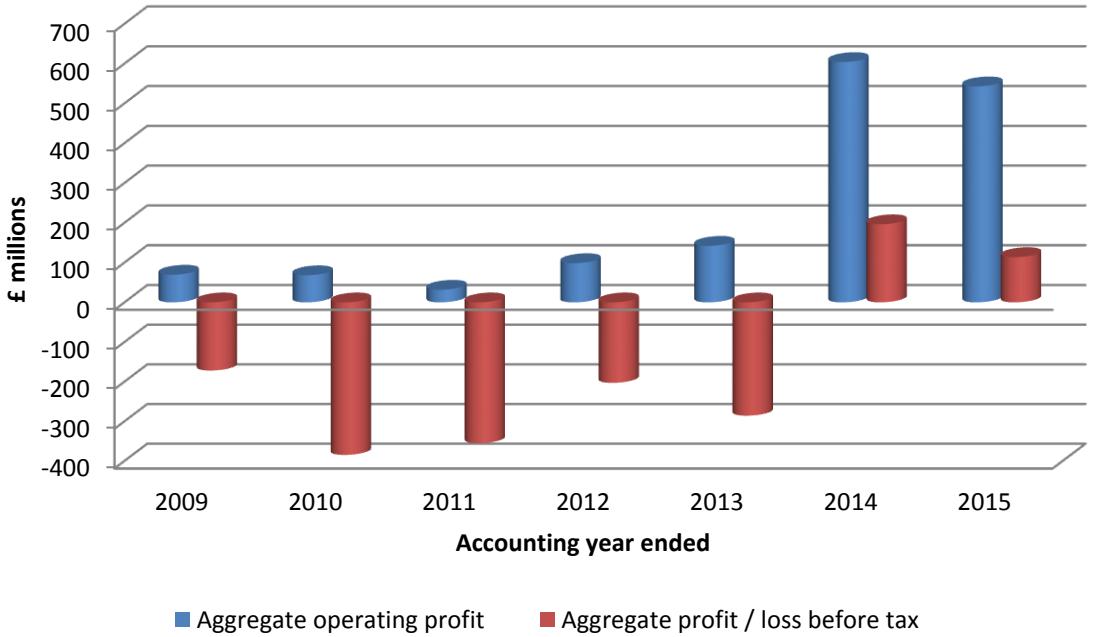
Table 5.2: Comparison of wages / revenue ratio for clubs with a PBIT and LBIT 2004-15
(Source: Calculated from financial statements of clubs in the EPL 2004-15)

STCC was a relatively straightforward method that ensured growth in EPL broadcasting revenue was no longer used mostly to fund a corresponding rise in players' wages. In 2014 the £52 million threshold for STCC (Premier League 2015:107) impacted on all but three clubs in the EPL (Observed from financial statements of clubs in the EPL 2014). Although aggregate revenue in 2014 was 27% higher than 2013, wages increased by less than 6%

(Calculated from aggregated financial statements of clubs in the EPL 2013 and 2014). By restricting growth in wages funded through central distributions STCC was a key factor in the aggregate wages / revenue ratio falling from 70% in 2013 to 58% in 2014 (Table 4.16).

FFP encouraged better control of costs by requiring clubs to break-even (or achieve an acceptable deviation from this). FFP also challenged excessive spending on wages since UEFA could request additional financial information from those clubs with a wages / revenue ratio above 70% (UEFA 2015:39). Analysis showed that between 2004-15, 120 out of 238 financial statements published by clubs in the EPL reported a PBIT. Of these 91 had a wages / revenue ratio below 65% (Table 5.2). For those clubs that reported a LBIT, 76 out of 118 financial statements had a ratio above 70% (Table 5.2).

Figure 5.3: Aggregate profit / loss reported by clubs in the EPL 2009-15 (excludes Portsmouth 2009-10) (Source: Calculated from aggregated financial statements of clubs in the EPL 2009-15)



We can see from figure 5.2 that growth in broadcasting revenue combined with stricter regulation by UEFA and national football associations impacted favourably on the aggregate financial performance of European club football. Despite combined revenues of €13 billion in 2011 (UEFA 2015a:66) European football leagues reported operating losses of €582 million

and losses after tax of €1.7 billion (Figure 5.2). By 2015 combined revenues had increased to €17 billion (UEFA 2015a:66) and accompanied by the introduction of FFP financial performance had improved significantly, and operating profits amounted to €727 million (Figure 5.2). However losses after tax (€323 million) persisted, and this was largely due to the performance of clubs in Italy (aggregate losses of €289 million) and Turkey (€207 million) (UEFA 2015a:111).

Figure 5.3 shows that although aggregate operating profits for clubs in the EPL improved after the introduction of FFP, pre-tax losses continued until 2013. Compliance with increased regulation was greatly assisted by growth in revenue, particularly domestic broadcasting from August 2013. In 2015 aggregate revenue of £3.4 billion was 58% higher than in 2010 (Calculated from Table 4.13). This meant that even though aggregate wages increased from £1.3 billion to over £2 billion (Calculated from aggregated financial statements of clubs in the EPL 2010 and 2015), clubs were able to report aggregate profits in 2014 and 2015 (Figure 5.3).

Figure 5.4: Revenue, wages and amortisation, and profit / loss before tax by club ranked in terms of revenue for the accounting year ended 2015 (Source: Financial statements of clubs in the EPL 2015)

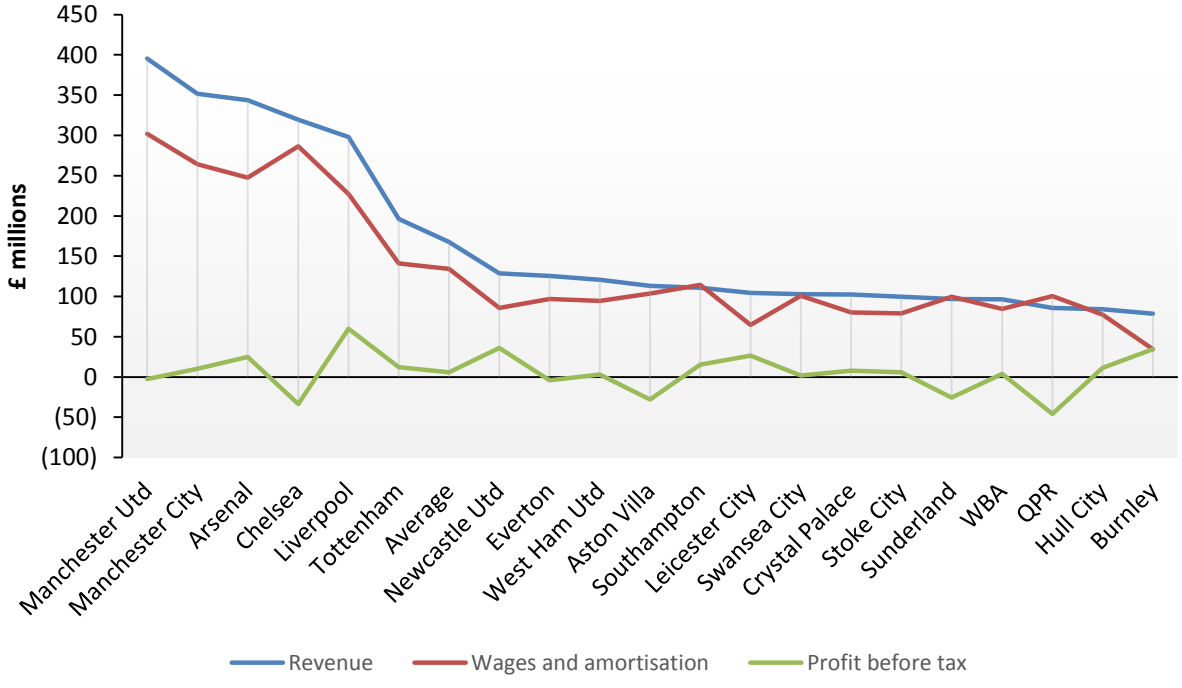


Figure 5.4 illustrates cost control by each club in the EPL in 2015 and shows that 14 clubs reported pre-tax profits, a significant improvement on 2010 (Figure 5.1). By 2015 the aggregate wages / revenue ratio was 60%, and this included an improvement to 66% for clubs supported by sugar daddies (Table 4.16).

5.7 Levels of equity and soft debt

Quantitative analysis showed that the capital bases of several clubs had not increased sufficiently to reflect growth in the scale of operations, and cumulative losses worsened already low levels of equity. In 2011 clubs in the EPL had total assets of £4.9 billion (calculated from aggregated financial statements of clubs in the EPL 2011), however low levels of equity meant just 9% of this was covered by shareholders' funds (Table 4.27). Although aggregate debt amounted to £2.8 billion, this included almost £1.6 billion of loans from owners and related parties (Table 4.13). This indicated that too many owners and related parties did not invest in equity but instead provided soft loans for clubs. It was explained that,

> 'A huge reason why clubs have negative equity is they [owners] haven't bothered to do equity exchange for negative reserves that have built up from losses over many years…Most losses are covered by the owners' investment, so negative equity is not covered by external debt but by owners' debt.' (Informant 4)

The calculation of gearing and hard debt gearing ratios demonstrated that conversion of soft loans into equity would greatly improve the financial positions of several clubs. Increasing levels of negative equity are classed as a breach of FFP (UEFA 2015:39), and break-even and EPL Profitability and Sustainability rules require that losses above acceptable deviations are matched by a corresponding equity contribution. Over time this will restrict the provision of soft loans. Although in recent years a number of owners and related parties had converted some soft debt into equity (Table 4.32), in 2015 seven clubs in the EPL operated with negative equity that totalled to £1.2 billion (Calculated from financial statements of clubs in the EPL 2015).

Berglöf and Roland (1995) made similar observations about the banking sector where low levels of capital and poor loan portfolios meant banks in some countries relied on frequent government bailouts (1995:354). The provision of a soft budget constraint allowed these banks to continue take risky investment decisions (1995:355), and regulation that focused on capital adequacy and increased monitoring was necessary to harden budgets (1995:374). Du and Li (2007) concurred and suggested that effective regulation of banks should include capital adequacy requirements that specified a minimum ratio for equity to total assets (2007:116).

5.8 Using regulation to change behaviours

The scale of losses reported in European club football and the threat of clubs becoming insolvent forced regulatory bodies to intervene,

> 'It was the right thing to do to restrict losses. The PL had the experience of Portsmouth…where a club got into financial difficulties while in the PL.' (Informant 8)

> 'There were concerns about…the potential for failures and UEFA needed to do something, as did subsequently the EPL…to try and get some financial discipline...I think it was all about trying to get clubs to live within their means.' (Informant 6)

Despite this several elite informants expressed unease about increased financial regulation, reasoning instead that, 'Market forces should prevail' (Informant 3), and 'From our point of view we like the free market model because it has brought a lot of investment into football' (Informant 4).

Some speculated that FFP was introduced partly to limit the financial power of wealthy clubs in the EPL, particularly those supported by sugar daddies, 'Platini was very vocal about the effect that the benefactor model was having on English football and they [UEFA] decided to try to put a stop to it with FFP' (Informant 7). Nauright and Ramfjord pointed out that Platini had warned national regulators 'To be wary of foreign investment in their domestic leagues' (2010:439). Rohde and Breuer commented that FFP 'Aimed to limit "overinvestments" by wealthy owners' (2017:270).

A number of elite informants were critical that FFP focused on profit since this wasn't necessarily the primary objective of investors in football clubs. Although they agreed FFP should limit investment funded by debt, they pointed out that focusing on profit also restricted sustainable investment in equity, which made it more difficult for smaller clubs to challenge the largest clubs,

> 'If ever the owners' of this club want to sell…what's the incentive of someone coming in and buying Club B…it's not going to be a big oligarch coming in who can change Club B and move it up as a rich man's toy. So of course, FFP is making it more business savvy, but I do think it's locking in Club B.' (Informant 3)

These findings were consistent with previous studies. Peeters and Szymanski (2014) criticised use of the word 'Fair' since it was now more difficult for smaller clubs to challenge the elite of European club football (2014:347). Szymanski (2014) argued FFP ignored that investment by sugar daddies had increased interest in matches, and the transfer fees paid to acquire players shared these funds with other clubs (2014:222). He pointed out that unlike medical doping, financial doping in the form of support from sugar daddies was not hidden (2014:224), and was concerned that in the long-term restricting funds might lead to them investing outside of Europe (2014:113). Schubert (2014) questioned why UEFA 'Considered it irrational when clubs as commercial undertakings take entrepreneurial risks' (2014:343).

This study showed that FFP and EPL rules encouraged better control of costs. It can be argued that by restricting investment to acceptable deviations, FFP is addressing the financial doping that encouraged excessive spending by clubs regardless of whether this is funded by soft loans or equity. In addition, by removing from the break-even calculation costs associated with youth and community development and infrastructure improvements, owners can continue to invest large amounts provided a long-term stance is taken.

EPL Profitability and Sustainability rules were introduced from the start of the 2015-16 season, so did not affect this sample of financial statements. Given their criticisms of FFP it

was not surprising that elite informants preferred the much larger equity contribution of up to £105 million over three years (Premier League 2015:87) allowed under EPL rules.

The EPL's larger equity contribution also means those clubs that don't compete in UEFA competitions potentially have an advantage over those that do. These clubs will be able to report much larger losses, and owners can invest greater amounts of equity during each three-year monitoring period. Though revenues earned by the six largest clubs in the EPL mean in the short to medium term it will remain difficult to challenge this group.

Given the poor financial performance of clubs, disparities in revenue, and the EPL's experience with Portsmouth entering administration, it was surprising that so many elite informants were initially averse to increased regulation. Criticisms that FFP interfered with the free market model ignored that this had been damaged by the soft budget constraints provided by sugar daddies. It also overlooked that clubs were part of a league and the overriding objective of regulatory bodies is to safeguard their competitions, 'All UEFA is trying to do is monitor its own competitions' (Informant 7). Previous research by Neale (1964), Sloane (1971), Gratton (2000) and Storm (2010) explained that although owners sought playing success, this had to be balanced with the objectives of the leagues in which their clubs operated. In this way compliance with regulation provides an example of co-opetition referred to by Nalebuff and Brandenburger (1996) and Robert et al (2009).

Although informant 3 preferred the free market model, he conceded that even following huge growth in broadcasting revenue, 'Without FFP there is a possibility that clubs would make losses or would need to be bailed out by sugar daddies' (Informant 3).

FFP and EPL rules are trying to change the behaviours of football clubs and their owners. This means moving away from a soft budget constraint, and balancing playing success with the requirements of financial regulation. Evidence from other sectors demonstrated there was often resentment to reform and regulation that sought to change attitudes and harden budgets. Hood (1995) examined public sector reform in the early 1990s, and explained that resentment by staff often stemmed from the perception that reforms reflected 'High trust

in the market and private business methods and low trust in public servants and professionals whose activities therefore need to be more closely costed and evaluated by accounting techniques' (1995:94).

Using semi-structured interviews Broadbent et al (1993 and 1996) and Broadbent and Laughlin (1997) examined the reaction of staff to public sector reform in the UK. Broadbent and Laughlin observed that reforms were resented by staff in GP practices and schools who saw them as a threat to 'Established values and…behaviours' (1997:489). Broadbent et al (1996) explained that professional staff perceived the move towards a 'business culture' (1996:261) as reducing their professional autonomy (1996:262). Following reforms that devolved budgets to schools, Broadbent et al (1993) explained there was a perception among teachers that senior managers focused on control of costs at the expense of education (1993:172).

Broadbent et al (1993 and 1996) concluded that healthcare professionals and teachers needed to better understand the economic rationale behind these reforms (1996:281), which sought to improve the use of resources by allowing decisions to be taken at a local level (1993:172).

Oakes et al (1998) looked at the implementation of business planning processes in museums and cultural heritage sites in Canada (1998:258). Reforms increased accountability, controlled spending, and meant organisations were competing for public funds (1998:260). This resulted in a change in organisational culture (1998:286), which meant a greater focus on increasing visitor numbers (1998:284) and attracting new sources of funds (1998:286). Oakes et al explained that to reduce resentment to change, staff needed to better understand the purpose of the business planning process (1998:287).

Fearnley et al (2002) explained that the Financial Reporting Review Panel (FRRP) was established in 1991 to enforce stricter compliance with accounting standards by large companies (2002:110). Fearnley et al conducted semi-structured interviews to establish how stricter rules had changed attitudes (2002:110). The threat of fines and the impact on their

professional reputation meant auditors were more likely to resist pressure from clients to ignore breaches (2002:135). The possibility of negative publicity meant directors were more likely to comply with the requirements of the FRRP (2002:136). Fearnley et al concluded that FRRP rules changed attitudes, discouraged breaches (2002:133), and improved the quality of published financial statements (2002:110).

During 2008 the US government provided assistance for several large financial companies including Bear Stearns ($29 billion), AIG ($173 billion), and Fannie Mae and Fanny Mac ($100 billion each) (Webel et al 2009:3). The Dodd-Frank act was introduced in 2010 and increased disclosure requirements and capital balances for those banks and financial institutions that were considered 'too big to fail' (Labonte 2013:1). Although this reduced the risk of failure several organisations resented stricter regulation since it lessened opportunities to undertake speculative risk, which affected profit (Finkle 2017). Even though it was less than a decade after the financial crisis, plans to relax Dodd-Frank in 2017 were welcomed by financial institutions and investors and saw a rise in share prices for affected companies (Finkle 2017).

5.9 Comparison of FFP and EPL rules with financial regulation in the banking sector

There are similarities between FFP and EPL rules and the financial regulation of banks, and a large body of work has looked at the effectiveness of banking regulation in addressing soft budget constraints. Unlike FFP and EPL rules which focus on break-even, banking regulation sets out the requirement for minimum levels of shareholders' equity. Quantitative analysis showed that those football clubs provided with a soft budget constraint often followed riskier investment strategies in pursuit of playing success. This was evident from the excessive amounts spent on wages and amortisation, and cumulative losses reported by those clubs supported by sugar daddies. It was also consistent with the findings of Sloane (2015:4) and Franck and Lang (2012:3).

Kapstein (1989) explained that globalisation provided opportunities for banks to generate large profits (1989:324). However risky investment portfolios including 'securitisation'

which allowed banks to trade mortgages and loans, exposed them to large losses (1989:325). This necessitated greater regulation that focused on increased monitoring and capital adequacy (1989:331).

Research by Llewellyn (1999:17) and Barth et al (2001:237) showed that although a lender of last resort was there to support banks in times of trouble, this encouraged riskier behaviour since it offered a soft budget constraint that would be made available if banks got into difficulties. Barth et al explained that tighter rules on capital adequacy reduced the likelihood of poor loans (2001:245) and risky investments, since in the event of a bank failing shareholders had more to lose (2001:210). They also found that increased disclosure of information promoted bank stability and improved performance (2001:246).

In the UK the Prudential Regulation Authority (PRA) was established in 2012 and is responsible for the regulation and supervision of financial institutions (Bank of England). PRA regulation requires that financial institutions have a minimum specified level of shareholders' equity since this reduces the likelihood of them taking excessive risks (Bank of England). Barth et al (2013) concurred that capital adequacy regulation 'Results in more careful lending and better bank performance' (2013:2880).

Llewellyn (1999:21) observed that regulation could prevent 'herd behaviour', where fearful of missing out banks simply followed the actions and strategies of their main competitors. If in future results showed this was the wrong decision, managers could point out that all banks had made the same mistake (1999:28). It can be argued that the actions of sugar daddies resulted in 'herd behaviour' in the EPL, and the preceding analysis showed this increased players' costs for all clubs.

Lall (2012) explained that in 1988 Basel I was the first international attempt to set minimum capital requirements for banks (2012:612). The rapid pace of change in the banking sector meant by the late 1990s regulations were insufficient, and this was evidenced by the Asian financial crisis in 1997 (2012:612).

Basel II was issued in 2004 (2012:623) and increased minimum capital requirements, particularly shareholders' equity (2012:610). However Lall was critical that during negotiations large international banks used their power to influence capital requirements and this meant Basel II was not as robust as originally intended (2012:611). He concluded that to prevent the largest banks adversely influencing the regulation setting process, supervisory bodies had to be sufficiently independent (2012:633). Freixas (2010) concurred and explained the 2008 financial crisis had demonstrated banking regulation was not sufficiently robust, and capital requirements weren't large enough for the risks attached to loans (2010:379).

Drut and Raballand (2010), Geey (2011), Storm and Nielsen (2012) and Williams (2012) suggested the largest clubs in Europe might form their own breakaway competition if they were prevented from competing in the Champions League for non-compliance with FFP. It is likely this influenced the content of FFPR, and that UEFA consulted with the largest clubs in European football to obtain their support for increased regulation. It could also be argued that acceptable deviations and maximum equity contributions were put in place to placate clubs that preferred a free market approach.

Barth et al (2001) found evidence to suggest diversification of revenue streams improved the stability of banks (2001:244). This point was illustrated by O'Sullivan and Kinsella (2013) who explained that during the 2000s a significant rise in mortgage lending (2013:11) meant Ireland's banks were over-reliant on loans secured on domestic properties (2013:17). Following the financial crisis in 2008 a slump in property prices resulted in many borrowers defaulting on loans (2013:13), and government intervention was necessary to support banks (2013:14). In the same way analysis showed that several clubs in the EPL were very reliant on broadcasting revenue. By 2015 broadcasting income equated to over 70% of revenue earned by ten clubs in the EPL (Figure 4.5). In the medium-term these clubs need to secure more diverse revenue streams. It should also be noted that players' registrations were often the largest assets held by clubs, and a decline in market values would have a significant impact on their financial positions.

This research demonstrated that until recently clubs in the EPL had been subject to little financial regulation, and the provision of a soft budget constraint and heavy spending on players' costs was often driven by foreign investors. This was consistent with Fort and Quirk (2004:22), Lago et al (2006:9) and Drut and Raballand (2012:82) that football clubs in England were subject to less financial regulation than those in France and Germany. This is reflective of the wider economy, and Macartney (2014) observed that in terms of regulation UK banks had historically been subject to a 'Light-touch' approach (2014:828). The 2008 banking crisis showed that several UK banks were under-capitalised (2014:827) and government intervention was necessary to provide additional funds (2014:834). Macartney also pointed out that a high degree of foreign ownership was a threat during economic crises since foreign banks often tried to repatriate their funds (2014:840). O'Sullivan and Kinsella (2013) suggested that the entry of foreign banks into Ireland during the 1980s had increased competition but reduced credit standards (2013:10).

UEFA and the EPL have increased the amount of financial information that must be submitted by clubs, and where necessary UEFA can request that an independent third party provides a fair value for transactions with related parties (UEFA 2015:91). Llewellyn concluded that in banking the best approach was where the regulator set out precise requirements (1999:49), and this would usually include increased disclosure and transparency (1999:32). The PRA requires that banks must provide high quality and timely financial information (Bank of England). By ensuring that firms have the financial resources necessary to operate, PRA regulation and supervision aims to promote stakeholder confidence in the financial sector and 'Facilitate effective competition' (Bank of England). Franck (2013), Budzinski (2014), Peeters and Szymanski (2014), Szymanski (2014) and Sass (2016) were critical that FFP didn't address competitive balance and pointed out that acceptable deviations made it more difficult for smaller clubs to challenge the largest clubs in European football even if supported by sustainable equity investment.

Gaganis and Pasiouras (2013) considered how regulation and supervisory agencies impacted on performance, efficiency and risk taking in the banking sector (2013:5463). They

established that having specialised supervision by independent regulatory bodies had a positive impact on risk management and innovation which increased profits (2013:5468). Barth et al (2013) observed that efficiency was improved where banks were monitored by a powerful and independent supervisory body (2013:2881). Monitoring often required banks to produce detailed financial statements and other information for disclosure, and this also helped improve corporate governance (2013:2881). External audit and transparency in accounting information also improved efficiency (2013:2888), reducing the potential to make bad investment and loan decisions.

In the same way Olsson (2011) explained that since national football associations and leagues had not been able to deal with financial doping, intervention by UEFA was necessary 'To safeguard the credibility of the sport' (2011:28). This was initially through club licensing and more recently through FFP. He pointed out that increased regulation by UEFA had also prompted several national football associations to strengthen their own financial rules (2011:28). Evidence of this was provided by the EPL which introduced STCC and Profitability and Sustainability rules. EPL rules also increased disclosure, requiring the submission of audited financial statements together with financial forecasts for the following season (Premier League 2015:104).

Klomp and Haan (2012) showed that regulation and supervisory control had a significant impact on the behaviours of those banks that were high risk (2012:3203). High risk included low levels of liquidity; high levels of expenses as a percentage of revenue; high levels of debt owed to central and other banks; and low levels of equity expressed as a percentage of total assets (2012:3198). By changing the behaviours of high risk banks regulation and supervision were doing exactly what was required.

The preceding analysis showed that FFP and EPL rules had the greatest impact on those clubs supported by wealthy owners, who invested heavily in short-term playing success. The break-even requirement compels clubs to control costs and operate within their revenues which will improve profitability and liquidity; STCC focuses on better control of wages; and FFP and EPL Profitability and Sustainability rules require that losses above

acceptable deviations are matched with a corresponding equity contribution. FFP also allows UEFA to request further information where wages / revenue and revenue / debt ratios exceed specified amounts, or if negative equity is worsening. In this way FFP and EPL rules seek to ensure clubs are no longer able to spend excessive amounts in pursuit of playing success.

Laeven and Levine (2009) explained that a bank's ownership structure also impacted on risk (2009:260). Where one large investor controlled the majority of share capital, it was more likely a bank would take greater risks in pursuit of higher profits (2009:269). This meant it was important that regulations ensured adequate capital requirements were in place (2009:263), since this would reduce risky behaviour. Comparison can be made with the behaviours of sugar daddies that spent heavily in pursuit of playing success and funded this through debt rather than equity. Wilson et al (2013) found that foreign owned clubs had higher levels of debt (2013:29), and '"Win" maximisation outweighs any desire to run the club as a profitable business' (2013:22).

Evidence from the banking sector showed that increased regulation and the removal of a soft budget constraint reduced risk taking and encouraged innovation and the attainment of new revenue streams. However Basel I and II showed it is important that regulation keeps pace with changes in the global business environment.

Schubert (2014:338) and Dermit-Richard et al (2017:2) observed that although most national football licensing systems focused on solvency, requiring that losses were covered by equity contributions, FFPR instead limited excessive spending (2014:338). As we have established from interviews with elite informants and previous studies by Madden (2014), Budzinski (2014) and Peeters and Szymanski (2014), this is the aspect of FFP that has been most criticised since it limits sustainable investment even if this is by way of equity, and potentially restricts the growth of clubs. Sass (2016) commented that while FFP 'Addresses the negative impacts of sugar daddy owners in terms of financial instability…it also potentially eliminates the positive impacts such as sugar daddy clubs increasing or maintaining competitive balance' (2016:156).

5.10 The future of FFP

Elite informants agreed that further regulation by UEFA or the EPL was not necessary. They also thought it most likely rules would be relaxed over time if clubs continued to work towards break-even and made losses within acceptable deviations,

> 'I think it [FFP] will be watered down...They've got to retain the top clubs playing in that competition…I think there'll be further pressure on UEFA to acquiesce and certainly with a change at the top there could be changes in their views as to how they monitor clubs.' (Informant 7)

Informant 5 concurred,

> 'The more teams that are getting closer to compliance…then you'll see a softer re-regulation. Clubs who are falling in line may be rewarded in other ways with slightly larger acceptable losses that could be made over a period of time…Now I'm not suggesting that is the same as being able to spend until your heart's content, but there's definitely been a softening of those regulations.' (Informant 5)

This was shown by UEFA (2015) maintaining acceptable deviations at €30 million after 2018-19 (2015:38), having previously suggested these would be reduced (UEFA 2012:36). It should also be noted that from 2016-17 the EFL brought in Profitability and Sustainability regulations after clubs in the Championship voted for more flexible rules that allow losses of up to £39 million over three years, with higher losses for clubs relegated from the EPL (EFL Appendix 5:Part 2.3).

Despite their reservations elite informants concurred that FFP had improved cost control and the financial positions of European football clubs,

> 'I think they've done very well so far the UEFA FFPR. They've been implemented; the financial results of clubs around Europe in general have improved. There's not been a legal challenge to them; they're strong in that respect…stakeholders are positive about it. The European Commission is supportive of it. It's working.' (Informant 2)

5.11 Transparency of FFP and EPL rules

Although FFP and STCC impacted significantly on operating activities, published financial statements made little reference to compliance (or otherwise) with regulations. In 2012 just six clubs in the EPL referred to FFP (Arsenal Holdings plc 2012:13, Birmingham City FC plc 2012:3, Fordstam Ltd 2012:2, Manchester City Ltd 2012:9, Newcastle United Ltd 2012:2, and Wigan Athletic AFC 2012:2). In 2014 the directors' report stated that Manchester City had incurred expenses of £16 million related to a settlement agreement for breaching FFP (Manchester City Ltd 2014:4); though no further details were provided of either the type of non-compliance or the full scale of penalties imposed by UEFA. Despite a settlement agreement in February 2015 that imposed a fine of £200,000 for non-compliance with FFPR (UEFA 2017:Hull City AFC), Hull City's 2015 annual report made no reference to this.

In 2015 only 10 clubs referred to FFPR and STCC in their financial statements and this was often hidden in directors' reports (Observed from published financial statements of clubs in the EPL 2015). Of these just four clubs specifically mentioned compliance with FFP and STCC rules (Arsenal Holdings plc 2015:19, Reform Acquisitions 2015:2, Leicester City Ltd 2015:3, and Tottenham Hotspur Ltd 2015:2). Arsenal also explained the positive correlation between players' wages and playing success, and reassured stakeholders that the club had sufficient resources available to increase wages whilst continuing to comply with FFPR and STCC (Arsenal Holdings plc 2015:19). Chelsea's only reference to FFP and STCC was that compliance would be 'challenging' (Fordstam Ltd 2015:2).

One of the stated objectives of FFPR is 'To improve the economic and financial capability of the clubs, increasing their transparency and credibility' (UEFA 2015:2). To address transparency, it would be beneficial if clubs included a note to financial statements providing confirmation or otherwise of compliance with FFP and EPL rules. This could include reference to the wages / revenue and revenue / debt ratios; a brief outline of how growth in wages above £4 million was funded; where applicable comments on changes in negative equity and equity contributions; an outline of amounts spent on infrastructure developments; and a reconciliation of reported profit (or loss) with the adjusted figures

used in submissions to UEFA and the EPL. Given the magnitude of players' salaries it is surprising this is not shown separately from total staff costs in a note to financial statements.

5.12 Should regulations have gone further?

Although several elite informants believed FFP and EPL rules were sufficient, it could be argued these didn't go far enough. It should be remembered that although STCC was introduced in 2013-14, increases in wages above £4 million that were caused by the terms of contracts entered before 31 January 2013 were not classed as a breach (Premier League 2015:107). To assist compliance with FFP, in 2014 and 2015 clubs were not sanctioned for losses over €45 million where cumulative losses were declining and the result of contracts entered before 1 June 2010 (UEFA 2012:87). This provided a relatively gentle introduction to STCC and FFP. Whilst acceptable deviations and maximum equity contributions meant clubs didn't need to break-even.

The EFL's SCMP requires that clubs in Leagues 1 and 2 spend no more than 60% (EFL Appendix 5: Part 4.1) and 55% of revenue on wages (EFL Appendix 5: Part 3.1). Such was the scale of losses reported by many clubs in European football it is surprising that UEFA didn't impose a similar restriction on wages. Based on figures shown in table 5.2 a wages / revenue ratio of for example 65% would have reduced losses and assisted compliance with FFP's break-even requirement. Stricter regulation might have required owners to convert soft debt into share capital, or an equity contribution to address situations of negative equity. Financial regulation for banks sets a minimum level of equity, and UEFA and the EPL could have introduced something similar for football clubs.

Under FFP UEFA can investigate where the revenue / debt ratio is less than one (UEFA 2015:39) however no distinction is made between hard and soft debt. Although Chelsea had a revenue / debt ratio of 0.3 in 2015 (Calculated from financial statements of Fordstam Ltd 2015), this was an interest free loan. Interest cover might be a more useful ratio for UEFA to consider since it indicates whether a club makes sufficient profit to service its debt. During 2006-15 Manchester United incurred cumulative interest payable of £493 million

(Calculated from financial statements of Red Football Ltd 2006-15), which meant that despite consistently high revenues interest cover remained below one in most years.

One of the stated objectives of FFP is 'To introduce more discipline and rationality in club football finances' (UEFA 2015:2). Given recent criticisms over the way in which some owners funded their acquisitions of clubs it is surprising that FFP and EPL rules don't consider this aspect in more detail.

The main criticism is that FFP hasn't addressed competitive balance. Sass (2016:155) explained that the break-even requirement meant smaller clubs couldn't invest sufficient amounts to challenge the largest clubs (2016:155), and concluded this was 'A potentially very problematic and probably unforeseen consequence of UEFA's FFP' (2016:156). Evidence of this can be seen at Chelsea, which during the 2017-18 season loaned 34 players to other clubs (chelseafc.com). This helps Chelsea comply with FFPR since it reduces players' wages. It also shows that despite stronger regulation, Chelsea is still able to acquire the best young players. If they don't make the first team, these players can later be sold to other clubs.

Perhaps the biggest test for FFP came in August 2017 when PSG bought Neymar from Barcelona for a world record transfer fee of £200 million (BBC News 2017). Neymar signed a five-year contract and with total wages of £205 million (BBC News 2017), will cost PSG over £80 million per annum. To put this into perspective, in 2015 clubs in the EPL spent on average £134 million on wages and amortisation; removing the six largest clubs brought this figure down to £87 million (Calculated from financial statements of clubs in the EPL 2015).

During the accounting year ended 2017 PSG reported revenue of £418 million, 56% of which was from commercial activities (Deloitte 2018b:22). This study previously established that in May 2014 UEFA imposed penalties on PSG for breaching FFPR. As part of that settlement agreement UEFA significantly reduced the fair value of a commercial contract between the Qatar Tourism Authority and PSG (UEFA 2017).

Towards the end of the Summer 2017 transfer window, PSG acquired Kylian Mbappe on a season long loan with a binding option to buy the player in July 2018 for €145 million (Burt 2017). This showed that the wealthiest clubs will seek ways to get around FFP in order to achieve playing success.

5.13 Summary

The preceding analysis and review of literature established that strong growth in broadcasting revenue and the global appeal of the EPL attracted wealthy foreign investors. It also showed that those clubs which enjoyed most playing success were able to generate higher revenues from broadcasting, matchday and commercial activities. Several wealthy owners provided a soft budget constraint which enabled their clubs to invest heavily in players' costs. Investors hoped this strategy would quickly achieve playing success and growth in revenue. However the significant revenue differential between the EPL and EFL meant several clubs were forced to spend a greater proportion of revenue on players' costs to remain competitive and avoid relegation from the EPL. This meant growth in revenue was usually accompanied by a corresponding rise in players' costs. Investment in players' costs was up-front and there was no guarantee it would be successful. This might lead to severe financial difficulties and ultimately relegation from the EPL where sporting success was not achieved or where investment was not sustained.

Increased regulation by UEFA and the EPL meant expenditure was more closely aligned to revenue; restricted provision of soft loans; and limited growth in players' wages funded through central distributions. Significant growth in EPL broadcasting revenue from August 2013 meant clubs didn't need to reduce monetary expenditure on players' costs in order to comply with regulation. However stricter regulation meant growth in revenue was no longer accompanied by an equivalent rise in players' costs. This improved cost discipline and from 2014 onwards the EPL started to report aggregate profits. However regulation has impacted on competitive balance since it restricts investment even where this is funded by equity, and means expenditure is constrained by a club's revenue.

Chapter 6 - Conclusions

6.1 Overview of chapter

This chapter will explain the contribution made by this study, limitations and areas for future research together with concluding comments. It will also consider key developments that have occurred since 2015.

6.2 Contribution

The purpose of this study was to examine to what extent did soft budgets and increased financial regulation impact on the performance of English Premier League football clubs 2004-2015? The contribution of this study can be broken down into a methodological contribution, a theoretical contribution and a practical contribution.

6.2.1 Methodological contribution

Detailed analysis of published financial statements enabled this study to examine and explain the performance of clubs in the EPL during the accounting years ended 2004-15. This sample comprised all 238 sets of financial statements published by the 37 clubs that played in the EPL during the 2003/4 to 2014/15 seasons, and enabled analysis of financial performance before and following increased regulation. The accounting years ended 2004-11 established why stricter financial regulation was necessary; analysis of 2012-15 enabled this study to consider the effectiveness of increased regulation.

Quantitative analysis allowed this study to ascertain the main revenue streams and examine how these changed during the period under review; highlighted disparities in revenue; and identified where clubs were over-reliant on broadcasting revenue. The calculation of 8,300 accounting ratios covering profitability and control of costs, liquidity, efficient use of assets, and reliance on debt, identified aspects of poor financial performance. By breaking down analysis between clubs that reported a profit before interest and tax, loss before interest and tax, or were funded by a benevolent sugar daddy, this study was able to examine the financial performance of each category; consider how the provision of a soft budget constraint impacted on financial performance; and investigate whether this changed

following stricter financial regulation. To the author's knowledge quantitative analysis of this detail has not previously been used on the EPL, and this is the first-time financial performance has been broken down into these categories.

Qualitative research in the form of structured interviews with nine elite informants augmented quantitative findings, providing valuable information about attitudes to financial performance and increased regulation. Qualitative methods are not often employed in accounting research, and difficulties accessing elite informants has limited the use of structured interviews in research into the football industry. To the author's knowledge mixed methods research of this type has not previously been used to examine the financial performance of clubs in the EPL.

6.2.2 Theoretical contribution

This thesis shows that provision of a soft budget constraint encouraged excessive spending by organisations in pursuit of sporting success and the revenues arising from this. It demonstrates that increased regulation brought greater cost discipline. Significant growth in broadcasting revenue after 2013 meant clubs didn't need to reduce expenditure on wages and amortisation to comply with FFP and EPL rules. However stricter regulation meant growth in broadcasting revenue was no longer accompanied by an equivalent rise in players' costs, and this allowed clubs to report aggregate profits.

Several studies have considered the financial performance of European club football and the need for stronger regulation including Lago et al (2006), Hamil and Walters (2010), Müller et al (2012) and Drut and Raballand (2012). Further studies have used accounting ratios to establish the causes of poor financial performance including Panagiotis (2009 and 2010), Zoccali (2012), Silva and Filipe (2013), Wilson et al (2013) and Barajas and Rodríguez (2014). While Andreff (2007), Storm (2012), Storm and Nielsen (2012) and Franck (2013) looked at how the provision of a soft budget constraint impacted on European club football, and whether this supported increased financial regulation. Szymanski (2014), Sass (2014), Schubert (2014) and Schubert and Könecke (2015) used economic theory to consider the likely impact of FFPR on competitive balance.

To date most studies have considered financial performance before the introduction of FFP. Peeters and Szymanski (2014) used data from 2002-11 to simulate the effectiveness of FFPR; and although Nicoliello and Zampatti (2016) considered the problems faced by clubs in Italy's Serie A in complying with FFP, their analysis was based on financial statements for the accounting years ended 2010-12 (2017:468).

This study confirmed findings from previous research into the financial performance of European club football. It adds to this body of work by examining the financial performance of clubs in the EPL before and following the introduction of increased regulation. In this way it brings new knowledge in the form of qualitative and quantitative data analysis on the EPL, and addresses a gap in literature by demonstrating that increased regulation resulted in improved financial performance by clubs.

This study established that during the period 2004-15 the EPL saw significant growth in revenue. Although this was driven by broadcasting, the most successful clubs also saw growth in revenue from matchday and commercial activities, and from regular participation in European club competitions. Growth in revenue and the global appeal of the EPL meant that during this period several clubs were acquired by wealthy owners. Rising disparities in revenue and the revenue differential between the EPL and EFL, meant wealthy owners often provided a soft budget constraint that enabled their clubs to invest heavily in pursuit of sporting success and the increased revenues arising from this.

Analysis of financial statements showed this encouraged excessive spending by these clubs, with players' costs often exceeding revenue. An increasing wages / revenue ratio and declining profitability ratios suggested this increased players' costs for other clubs and meant the EPL reported aggregate losses in each year between 2004-13. Low levels of share capital, soft loans and cumulative losses meant several clubs operated with negative equity throughout the sample period. The close relationship between expenditure on players' wages and league points attained (2011-2015 $r = 0.83$) explained why growth in revenue was often accompanied by a corresponding rise in players' wages.

It can be argued that the main beneficiaries of the soft budget constraint were players (and their agents) who benefited from increased salaries and rising transfer fees. Although supporters shared in their clubs' playing successes, this was often short-term. In the longer term several clubs experienced significant financial problems when funding abruptly ended, including Bolton Wanderers, West Ham United, Portsmouth and Leeds United all of whom were relegated from the EPL. Liverpool and Manchester City also experienced financial difficulties until new owners were found.

This thesis adds to previous research by using quantitative and qualitative data analysis to show that increased regulation started to change the behaviours of clubs and their owners and addressed the soft budget constraint through encouraging improved cost discipline. Without increased regulation it is likely that poor financial performance would have persisted. This thesis showed that compliance with FFP and EPL rules was greatly assisted by significant growth in broadcasting revenue after 2013 and the equitable way this was distributed.

Analysis of quantitative data showed significant disparities in revenue earned by the six largest clubs when compared with the rest of the EPL. Growth in broadcasting revenue and the equitable way this was distributed meant in relative terms disparities didn't worsen during the period under review. However it was established that several clubs were very reliant on broadcasting revenue. In the medium-term these clubs need to seek new revenue streams, and this might involve investment in youth development so players that don't make first teams can be sold to other clubs. This is made more challenging since the six largest clubs have the resources available to replicate and benefit most from new revenue streams, which might further exacerbate disparities.

This study established similarities with other sectors where provision of a soft budget constraint weakened financial discipline. Comparison with the banking and public sectors enhanced our understanding of how increased regulation and reform can be used to address a soft budget constraint. Public sector reform addressed excessive spending through devolved budgets and greater accountability. Banking regulation focused on a

minimum equity requirement and increased financial disclosure, which discouraged risky behaviours since in the event of failure investors had more to lose.

Previous studies showed that the most powerful banks favoured a free market approach (Lall 2012:611). This was similar to football where the largest clubs preferred to be allowed to focus on sporting success. It could also be argued that regulation in the banking and football industries was only strengthened following financial crises.

FFP and EPL rules require that clubs achieve break-even or operate within an acceptable deviation from this. Although this has addressed the soft budget constraint several have criticised that focusing on profit restricts sustainable investment even if this is funded by equity. In the short-term this makes it difficult for smaller clubs to challenge the largest clubs since expenditure is constrained by revenue, and in this way it is argued that FFP worsens competitive balance.

6.2.3 Practical contribution

This study showed that prior to increased financial regulation, growth in broadcasting revenue accompanied by the provision of a soft budget constraint resulted in excessive spending by clubs in pursuit of playing success. The introduction of stricter financial rules helped change the behaviours of those clubs supported by wealthy owners and related parties. By addressing the soft budget constraint, FFP and EPL rules curbed excessive spending and compelled clubs to focus on the attainment of playing success that was more clearly aligned with revenue. However more could have been done to address low levels of equity, particularly negative equity, including the conversion of soft loans.

Analysis of recent financial statements suggested that greater transparency is necessary regarding the disclosure by clubs of compliance or otherwise with FFP and EPL rules. This study also established that regulation didn't address the way in which some owners funded their acquisition of clubs. The leveraged buyout model used to acquire Manchester United and Liverpool meant both clubs had to service significant amounts of debt.

Elite informants were critical that FFP and EPL rules restricted sustainable investment in equity, arguing this adversely impacted on competitive balance. Although growth over the longer term is achievable through sustained investment in infrastructure projects, the break-even requirements of FFP and EPL rules mean it will be very difficult for any clubs to join the elite of European football. Elite informants recognised that clubs needed to be punished for non-compliance with FFP, but feared exclusion would devalue UEFA competitions and instead preferred financial penalties.

Increased financial regulation encouraged better cost discipline, and accompanied by significant growth in broadcasting revenue enabled clubs in the EPL to report aggregate profits in 2014 and 2015. Better financial performance might also help attract new investors who are satisfied to acquire a non-controlling interest in a club, similar to China Media Capital's 13% stake in Manchester City (Wilson 2015).

6.3 Limitations of this study

This study makes use of published financial statements. Analysis is reliant on the accuracy of financial statements and consistent treatment of transactions during the accounting periods under review. Financial statements were prepared in accordance with GAAP and since all clubs in the sample were limited companies, these were independently audited which lessened scope for errors and omissions.

Due to time constraints and the availability of accounting information this study focused on the accounting years ended 2004-15. This was considered sufficient to identify and explain trends in financial performance before and after the introduction of stricter financial regulation.

Analysis considered every club that played in the EPL during the accounting years under review. This meant that in each year aggregated accounting information was affected by the impact of promotion to and relegation from the EPL. However this enabled detailed analysis even if a club remained in the EPL for just one season. Given the small number of

clubs in this sample, in each year aggregate figures were affected by for example heavy expenditure on players' costs by just a few clubs.

The sample size is limited by the number of clubs that played in the EPL in each year under review. To increase the sample size and generalisation of results, analysis could look at more than one elite league in European club football.

Although only a small number of elite informants were interviewed each provided detailed, open and honest responses to questions. Previous research indicated that access to elite informants in this sector was often difficult (King 1997:226, Moore and Stokes 2012:439). Responses to questions suggested that saturation was reached.

6.4 Areas for future research

This is a contemporary and evolving topic that offers scope for further research. The threat of penalties for non-compliance with increased regulation has provided a focus on attaining playing success within financial constraints. Further studies could investigate whether this continues or if in future rules need to be strengthened and operating 'norms' introduced. This might for example include the introduction of a maximum level of expenditure on wages similar to the SCMP used by the EFL. The impact of Profitability and Sustainability rules on EPL clubs could also be studied. It will also be interesting to see whether the huge transfer fees and players' wages on offer from clubs in China influence the behaviour of European clubs.

FFP and EPL rules encourage investment in long-term infrastructure projects. During the next few years it will be worthwhile evaluating whether this impacts favourably on investment in youth academies and other long-term projects.

We established that there are significant disparities in the financial resources available to clubs in the EPL. In addition several clubs are very reliant on the continued growth and equitable distribution of broadcasting revenue. With the benevolent owner model no longer available, there is the potential to investigate whether clubs can seek out innovative new revenue streams that reduce reliance on broadcasting and assist compliance with

regulation. Failure to achieve this might further increase disparities in revenue and over time adversely impact on the competitiveness and attractiveness of EPL matches.

6.5 Concluding comments and developments post-2015

6.5.1 The impact of stricter financial regulation

Improved financial performance was achieved only following sustained growth in revenue and the introduction of stricter regulation by UEFA and the EPL which addressed some of the most serious financial problems prevalent in European club football. The break-even requirement tackled excessive spending forcing clubs to operate within revenue; STCC restricted growth in wages that was funded through central distributions of revenue; acceptable deviations limited assistance from sugar daddies including public authorities, and in doing so challenged the soft budget constraint; equity contributions for losses of more than €5 million under FFP and £15 million under EPL rules restricted the provision of soft loans.

By excluding the costs of infrastructure projects and youth and community development from break-even calculations, FFP and EPL rules encourage long-term investment rather than short-term expenditure on players' costs. IAS 38 Intangible Assets does not allow clubs to capitalise players developed through youth academies since these do not have a reliable monetary value. It follows these players do not incur amortisation costs which is another incentive for clubs to invest in youth academies and develop their own players. The sale of players developed in this way might in future result in the creation of a valuable source of funds for clubs.

One criticism might be that FFP and EPL rules haven't tacked negative equity. We established that banking regulation increased minimum levels of equity to reduce the likelihood shareholders would make poor or risky investment decisions. This study showed that several clubs would benefit from an injection of equity and it is surprising that FFP hasn't also established minimum levels of equity or insisted on the conversion of soft debt into equity.

Elite informants agreed that FFP and EPL rules are trying 'To do something for the greater good of the game and the communities within which they work' (Informant 7) and were optimistic about future financial prospects for the EPL. This was predominantly due to growth in broadcasting and commercial revenues during the last decade accompanied by better cost discipline following the introduction of FFP and EPL rules. These factors ensured most clubs could achieve profitability in 2014 and 2015 and led Informant 2 to suggest that the days of the wealthy sugar daddy might be coming to an end,

> 'I don't think these days you even necessarily need a wealthy owner in the EPL because there isn't the need for them to…put in as much as they have done in the past; because the clubs are actually more sustainable; because the revenue is relative to costs whilst still paying out more in wages than any other league…in the world.' (Informant 2)

Elite informants might not have been so optimistic had interviews taken place in 2009, when aggregate liabilities exceeded assets; or 2010 when aggregate pre-tax losses amounted to £385 million (Table 4.13) and Portsmouth entered administration. Without increased regulation it is likely losses would have continued despite sustained growth in revenue.

Although a football club's primary objective is playing success, FFP and EPL rules mean this must be more closely aligned to revenue. This requires better control of costs and could include players' salaries being more closely related to playing success in the same way that the merit award for broadcasting revenue is related to final league position.

Despite initial doubts UEFA have enforced and penalised clubs for non-compliance, though to date it could be argued that none of Europe's established elite clubs have failed to meet the requirements of FFPR (Manchester City and PSG are relatively recent additions to the elite of European club football). Growth in revenue accompanied by stricter regulation meant cumulative aggregate operating profits in European club football from 2012-16 amounted to €2.6 billion (Calculated from UEFA 2018:101), compared with cumulative operating losses of €967 million between 2009-11 (Calculated from UEFA 2015a:107). UEFA

(2018) commented that these figures showed the effectiveness of the break-even requirement (2018:103). Growth in broadcasting revenue and improved financial performance has attracted new investment into European club football, and since 2016 Chinese investors have been involved in more than 70% of all foreign acquisitions in Europe's top 15 leagues including Aston Villa, WBA and Southampton (UEFA 2018:23). Everton (Iran), Swansea (USA) and Crystal Palace (USA) have also received significant foreign investment (Cave and Miller 2016), and at the start of the 2017-18 season 12 clubs in the EPL were under foreign ownership (UEFA 2018:21).

6.5.2 Multi-club ownership

During the last few years European club football has seen the growth of multi-club ownership, where corporations and individuals invest in more than one club. Abu Dhabi based City Football Group has invested in Manchester City, New York City, Melbourne City, Girona (Spain), Yokohama F Marinos (Japan) and FC Atletico Torque (Uruguay) (UEFA 2018:25). Red Bull owns Red Bull Salzburg (RBS), Liefering (Austria), RB Leipzig (Germany), New York Red Bulls and Red Bull Brasil (MacInnes 2017); and the Pozzo family own Watford and Udinese (Italy) (MacInnes 2017). There are also examples where one football club has invested in another, including Atletico Madrid which acquired a stake in RC Lens (France), and Monaco which acquired a controlling interest in Cercle Brugge (Belgium) (UEFA 2018:25).

More complex ownership arrangements present challenges to regulators especially regarding player transfers between clubs under the same ownership. Manchester City acquired Aaron Mooy on a free transfer from Melbourne City in 2016 and immediately loaned him to Huddersfield Town (Howcroft 2017). Huddersfield bought Mooy for £12 million in 2017 (Kelly 2017), providing Manchester City with funds that contributed towards achieving its break-even requirement. In 2016 RB Leipzig acquired Naby Keita from RBS for around £21 million; he was sold to Liverpool in 2017 for £50 million (MacInnes 2017). These types of transaction show that regulators must ensure multi-club ownership doesn't impact on the integrity of competitions.

UEFA rules state that no owner can 'Have control or influence over more than one club participating in UEFA club competition' (UEFA 2017), and when RB Leipzig and RBS both qualified for the 2017-18 Champions League the CFCB investigated whether this was breached. It concluded that following changes in RBS's management structure; the termination of loan agreements with Red Bull; changes in sponsorship arrangements with Red Bull; and a commitment to addressing the lease of its stadium from a Red Bull subsidiary; Red Bull did not have decisive influence over RBS, and both clubs were able to play in the Champions League (UEFA 2017). This decision will have been welcomed by all multi-club owners.

6.5.3 EPL broadcasting revenue

During 2015-16 clubs in the EPL received €2.6 billion from broadcasting, which was €400 million greater than the combined broadcasting revenues of the Bundesliga and La Liga (Calculated from Deloitte 2017:9). This provided clubs in the EPL with a significant financial advantage and meant aggregate wages of €3 billion during 2015-16 exceeded the revenues reported by any football league in Europe (Observed from Deloitte 2017:9). The Deloitte Football Money League 2018 showed the highest revenue earning clubs in world football during the accounting year ended 2017 (Deloitte 2018b:2). The scale of broadcasting revenue meant ten clubs from the EPL were in the top twenty of the Money League, and 14 in the top 30 (Deloitte 2018b:3), including WBA (in 27th place) and Bournemouth (28th) (Deloitte 2018b:5). Despite not playing in the Champions League during 2016-17, Manchester United retained its position at the top of the Money League with revenue of €673 million (Deloitte 2018b:10). Growth in revenue allowed clubs in the EPL to spend record amounts during the summer 2017 (£1.47 billion) (Newell and Scott 2017) and January 2018 (£430 million) (Deloitte 2018a) transfer windows.

6.5.4 New entrants into broadcasting live matches

The way in which supporters watch matches is changing and this was reflected in the EFL's iFollow package which allowed overseas supporters to pay to live stream all 46 matches played by a club during the 2017-18 season (EFL 2017a). From the 2019-20 season this service will be available to UK based supporters (EFL 2017).

Amazon, Apple, Twitter, Facebook and Netflix have all expressed interest in showing live EPL matches (Sweney 2017a). Amazon has already acquired UK broadcasting rights to tennis for five years from 2019, outbidding Sky by offering £50 million to show the APT World Tour and spending £30 million on the US Open (Sweney 2017). In 2017 Amazon also paid around $50 million to live stream ten NFL matches in the USA (Hook and Kuchler 2017). Previously Twitter had paid $10 million for the same package (Hook and Kuchler 2017). In 2017 Facebook was unsuccessful with a bid of $610 million for the rights to live stream matches in the Indian Premier League for five years (Heath 2017). The winning bid was $2.5 billion, though Facebook made the second highest bid (Heath 2017).

Growth in recent EPL broadcasting agreements was driven through competition between Sky and BT for the quad play market of broadband, TV, landline and mobile. Future growth might be driven by on-line providers, though they will need to pay significantly more than the amounts Amazon paid for tennis and NFL matches. It is also likely that on-line providers will compete for the future rights to broadcast matches in the Champions and Europa Leagues.

6.5.5 Financial performance of EPL clubs

During the accounting year ended 2016 aggregate revenue for clubs in the EPL increased to £3.6 billion, with commercial revenue exceeding £1 billion for the first time (Deloitte 2017:16). However wages of £2.3 billion meant the wages / revenue ratio increased to 63% (Deloitte 2017:18) and operating profit declined slightly to £511 million (Deloitte 2017:20). Although 17 clubs reported an operating profit and 12 generated a pre-tax profit, the EPL reported an aggregate pre-tax loss of £111 million (Deloitte 2017:20).

Following two years of pre-tax profits these results were disappointing. Analysis from Deloitte (2017) was more optimistic as they explained that failure to generate pre-tax profit was driven by the presence of several exceptional costs, this allied to the new broadcast rights deal from August 2016 should see the EPL return to profitability (Deloitte 2017:3). Exceptional costs included £67 million paid by Chelsea for early termination of its kit supply

contract with Adidas (Fordstam Ltd 2016:23), and impairment of £80 million charged by Aston Villa (Reform Acquisitions 2016:20).

Deloitte's forecast proved correct and during the year ended 2017 aggregate revenue increased to £4.5 billion (Deloitte 2018). Although aggregate wages increased to £2.5 billion, the wages / revenue ratio fell to 55% and clubs reported a combined pre-tax profit of £500 million (Deloitte 2018). This included all 20 clubs reporting an operating profit and 18 a pre-tax profit (Deloitte 2018). Without regulation it is likely that players' costs would have continued to increase in line with growth in revenue.

6.5.6 Changes in regulation

The improved financial performance of European club football means there have been few changes to FFP and EPL regulations. Since June 2015 clubs have been able to apply to the CFCB to enter a voluntary agreement for break-even (UEFA 2015:94). This applies where a club has undergone restructure or a change in control and requires submission of a business plan that demonstrates sufficient equity funding will be made available to cover forecast deficits for the next four reporting periods (2015:95). This was seen as a response to criticism that FFP restricted sustainable equity investment.

Following commencement of the domestic broadcasting contract in August 2016, the EPL increased thresholds for STCC. From 2016-17, where players' wages exceeded £67m, growth was limited to £7m unless funded by non-central revenue; thresholds will increase to £74m in 2017-18, and £81m in 2018-19 (Premier League 2017: 117).

From 2018-19 England, Germany, Spain and Italy will each have four teams in the Champions League group phase, removing the need for some clubs to go through play-offs (Saffer 2017). This increases earnings potential for the largest clubs in European football, guaranteeing them at least six games in the Champions League, but is at the expense of smaller clubs and leagues.

FFP and STCC have not addressed disparities in revenue, and FFP has been criticised for maintaining the current hierarchy in European club football. Given the power of Europe's largest clubs it is unlikely that UEFA or the EPL can easily deal with this issue, and in the

medium-term disparities are likely to widen which might impact adversely on competition in the EPL and other major European leagues. At some point this might lead to creation of a super league comprised of the wealthiest clubs in Europe similar to that envisaged by Andreff and Staudohar (2000:274) and Vrooman (2007:344). There are also concerns that too many clubs are very reliant on broadcasting revenue. Any reduction in the amounts that broadcasters are prepared to pay or the way in which this is distributed would have a significant impact on the financial resources available to these clubs.

Increased regulation by UEFA and the EPL encouraged better control of key costs and the attainment of break-even or losses within acceptable deviations. However it is worth emphasising that clubs were fortuitous that introduction of tougher financial regulation coincided with significant growth in broadcasting revenue. This meant clubs in the EPL didn't need to reduce players' costs to comply with regulations. Without growth in broadcasting revenue and the equitable way this was distributed several clubs would have found it very difficult to comply with FFP and EPL rules.

Appendices

Appendix 1: Clubs that played in the EPL 2004-2015

Club	Company details	Accounting year end
1. Arsenal	Arsenal Holdings plc	31 May
2. Aston Villa	Aston Villa plc (2004-2006) Reform Acquisition Limited (2007-2015)	31 May
3. Birmingham City	Birmingham City Football Club plc	30 June
4. Blackburn Rovers	Blackburn Rovers Football and Athletic plc (The)	30 June
5. Blackpool	Sugesta Limited	31 May
6. Bolton Wanderers	Burnden Leisure plc	30 June
7. Burnley	Burnley Football and Athletic Company Limited (The)	30 June
8. Cardiff City	Cardiff City Football Club Limited	31 May
9. Charlton Athletic	The Charlton Athletic Football Company Limited	30 June
10. Chelsea	Chelsea Limited (2004-2008) Fordstam Limited (2009-2015)	30 June
11. Crystal Palace	Crystal Palace FC (2000) Limited (2005) CPFC 2010 Limited (2014-15)	30 June
12. Derby County	The Derby County Football Club Limited	30 June
13. Everton	The Everton Football Club Company Limited	31 May
14. Fulham	Fulham Football Leisure Limited	30 June
15. Hull City	The Hull City Association Football Club (Tigers) Limited	31 July
16. Leeds United	Leeds United Association Football Club Limited	30 June
17. Leicester City	Leicester City Football Club plc	31 May
18. Liverpool	The Liverpool Football Club and Athletic Grounds Limited	31 July / 31 May
19. Manchester City	Manchester City Limited	31 May
20. Manchester United	Manchester United plc (2002-2005) Red Football Limited (2006-2015)	30 June
21. Middlesbrough	Middlesbrough Football and Athletic Company (1986) Limited	30 June
22. Newcastle United	Newcastle United Limited	30 June
23. Norwich City	Norwich City Football Club plc	31 May
24. Portsmouth	Portsmouth City Football Club Limited (2007-2008)	31 May
25. Queen's Park Rangers	QPR Holdings Limited	31 May
26. Reading	The Reading Football Club Limited	30 June
27. Sheffield United	Sheffield United Football Club Limited (The)	30 June
28. Southampton	Southampton Football Club Limited	31 May
29. Stoke City	Stoke City Football Club Limited	31 May
30. Sunderland	Sunderland Association Football Club, Limited (The)	31 July
31. Swansea City	Swansea City Football 2002 Limited	31 May
32. Tottenham Hotspur	Tottenham Hotspur Limited	30 June
33. Watford	Watford Association Football Club Limited (The)	30 June

34. West Ham United	West Ham United Football Club Limited	31 May
35. West Bromwich Albion	West Bromwich Albion Football Club Limited	30 June
36. Wigan Athletic	Wigan Athletic AFC Limited	31 May
37. Wolverhampton Wanderers	WW (1990) Limited	31 May
(Source: Various company annual reports 2002-15)		

Appendix 2: Summary of accounting ratios and formulae used

a)	**Profitability and control of costs**
1.	Wages (staff costs) / Revenue (%)
2.	Amortisation / Revenue (%)
3.	Wages (staff costs) and amortisation / Revenue (%)
4.	Profit from operations / Revenue (%)
5.	Profit before interest and tax / Revenue (%)
6.	Profit before tax / Revenue (%)
7.	Wages / Non-broadcasting revenue (%)
8.	Return on capital employed before player trading (Profit from operations / Capital employed) %
9.	Return on capital employed after player trading (Profit before interest and tax / Capital employed) %
b)	**Capital structure and reliance on debt**
10.	Interest cover (Profit before interest and tax / Net interest payable)
11.	Net interest payable as a percentage of revenue (Net interest payable / Revenue) (%)
12.	Gearing (Total debt / Capital employed) (%)
13.	Revenue / Total debt
14.	Revenue / Hard debt
15.	Profit from operations / Total debt
16.	Total assets / Total liabilities (all current and non-current assets and liabilities)
17.	Players' registrations (NBV) / Total assets (%)
18.	Equity / Total assets (%)
19.	Total debt / Equity (where debt includes all long and short-term debt including bank overdrafts) (%)
20.	Hard debt / Equity (hard debt includes long and short-term funds provided by external lenders) (%)
21.	Hard debt gearing (%) (Hard debt / Capital employed)
c)	**Liquidity**
22.	Cash / Total assets (%)
23.	Working capital / Total assets (where working capital = current assets - current liabilities)
24.	Current ratio (Current assets / Current liabilities)
25.	Cash flow from operations / Profit from operations
26.	Cash flow from operations / Revenue
d)	**Use of assets**
27.	Revenue / Players' registrations (NBV)
28.	Asset turnover (Revenue / Capital employed)
29.	Stadium utilisation (Average attendance / Stadium capacity) (%)
Source: 1 Deloitte (2012:39), Morrow (1999:43) and adapted from Barros (2006:101); 2 and 3	

adapted from Deloitte (2012:39) and Barros (2006:101); 4, 5 and 6 adapted from Holmes et al (2008:75); 7 adapted from Deloitte (2012:39 and 2012: Appendix 9) and Morrow (1999:43); 8 adapted from McKenzie (2010:329); 9 McKenzie (2010:329);10 and 11 adapted from McKenzie (2010:307) and Morrow (1999:111); 12 McKenzie (2010:304) and Holmes et al (2008:180); 13 and 14 adapted from Zoccali (2011:88) and Barajas and Rodríguez (2010:57); 15 adapted from Gu (2002:34); 16 adapted from Gu (2002:37); 17 adapted from Zoccali (2011:88); 18 Zoccali (2011:88); 19 McKenzie (2010:305); 20 adapted McKenzie (2010:305); 21 adapted from McKenzie (2010:304) and Holmes et al (2008:180); 22 adapted from Panagiotis (2009:163) and Morrow (1999:111); 23 Horrigan (1968:289); 24 Panagiotis (2010:21); 25 and 26 Ryu and Jang (2004:18); 27 adapted from McKenzie (2010:361); 28 McKenzie (2010:358); 29 Deloitte (2012:55) and Premier League (2013, 2014, 2015)

Appendix 3: Details of elite informants

Interview date	Code for elite informant	Experience of elite informant	Type of interview	Gender and age
10 Nov 2015	Informant 1	CEO of a Football League X (2009-pres) Former CEO of EPL club A (2001-09)	Face to face	Male (45-49)
16 Dec 2015	Informant 2	Director of Sports Business Group in an international firm of accountants (2000-pres)	Telephone	Male (45-49)
20 Jan 2016	Informant 3	CEO of EPL club B (2010-pres) Finance Director Club B (2000-2010)	Face to face	Male (50-54)
22 Jan 2016	Informant 4	Director of Finance of Football League Y (1999-2016)	Telephone	Male (55-59)
12 Feb 2016	Informant 5	Partner in law practice sports group. Involved in advising UEFA and clubs in the EPL on FFPR (2007-pres)	Telephone	Male (35-39)
16 Mar 2016	Informant 6	Partner and national head of business services and accounting in an international firm of accountants. Responsible for audit of several clubs in the EPL (1999-pres)	Telephone	Male (50-54)
17 Mar 2016	Informant 7	CEO of EPL club C and previous experience as CEO of five clubs in the EPL (2002-pres). Previously Partner in an international firm of accountants	Telephone	Male (55-59)
3 May 2016	Informant 8	CEO of EPL club D (2010-pres)	Telephone	Male (45-49)
3 May 2016	Informant 9	Director of Finance of EPL club E (2015-pres)	Telephone	Male (40-44)

Appendix 4: Interview Questions

Revenue

Driven by broadcasting, the EPL has seen spectacular and sustained growth in revenue and in 2014 clubs reported aggregate revenue of £3.2b. During the period 2004-14 average revenue increased from £68m to £163m. However there was evidence of disparity since in each year no more than six clubs earned above average revenue; and around 60% of aggregate revenue was received by just six clubs.

1. In your opinion are clubs in the EPL too reliant on broadcasting revenue?

2. Are you concerned that the largest clubs in the EPL might seek to negotiate broadcasting contracts on an individual basis?

3. Commercial / sponsorship deals give some of the largest clubs a huge financial advantage over the rest of the EPL. Are you concerned by disparities in revenue and do you think this might impact upon the level of competition?

4. Are clubs finding it more difficult to obtain commercial / sponsorship revenue?

5. On average what is the duration of contracts with major sponsors?

6. Do contracts with major sponsors (eg: shirt sponsor, kit supplier) have bonus payments related to playing success?

7. Will stadium sponsorship become an increasingly important revenue stream?

8. Do clubs budget for or rely on funds from the sale of players?

Control of costs

Despite strong growth in revenue, in aggregate terms the EPL didn't report a PBIT in any year from 2004-13.

9. What financial information does your club use on a regular basis?

10. At the start of each accounting period does your club have a budget for transfer fees and wages? How is this arrived at and how strictly is it enforced?

11. Does your club budget to make an annual profit (or cumulative profit over for example three years)?

Increasing levels of soft debt

During the period 2004-13 51% of the Statements of Financial Position published by EPL clubs showed negative equity (where liabilities are greater than assets) including 2013 when 12 clubs showed negative equity.

12. In your opinion are there valid reasons why clubs should be allowed to operate with negative equity over a number of accounting periods?

13. What problems are caused by wealthy owners providing unlimited financial support for their clubs (soft budget constraint)?

UEFA Financial Fair Play Rules / Financial regulation

Introduced by UEFA in 2012 to encourage better financial management by football clubs.

14. Why was it necessary for UEFA to introduce financial regulation? Shouldn't the day to day management of a football club / operations / objectives (profit or otherwise) be left to market forces?

15. Although FFP allows clubs to invest in infrastructure it restricts the amounts wealthy owners / sugar daddies can invest in players and wages (investment in short-term costs). Some have argued this will maintain the status quo / freeze the current hierarchy of European football. Is this a valid criticism?

16. Is there evidence to suggest that clubs are starting to invest more in youth development / academies?

17. It has been suggested that clubs might get around acceptable deviations through sponsorship / commercial transactions with related parties (eg: Man City and Etihad stadium naming rights). How can UEFA / EPL prevent this / decide the market value of a transaction?

18. Some have suggested that FFP was an attempt by UEFA to prevent EPL clubs becoming too powerful in the Champions' League. Is this a valid criticism of FFP?

19. In your opinion does financial regulation currently go far enough? How might this evolve over the next decade?

20. Do you think UEFA would prevent for example Barcelona, Manchester United or Real Madrid from playing in the Champions' League for breaching FFP?

21. During the last two years the EPL has reported an aggregate profit (aggregate PBT 2014 – £196 mil). Would this have happened without increased financial regulation by UEFA / EPL?

Appendix 5: Sample of Interview Transcript

Informant 8 - 3 May 2016 (10.00)

Revenue

1. **In your opinion are clubs in the EPL too reliant on broadcasting revenue?**

   Certainly at the lower end of the PL, clubs can become reliant on broadcasting revenue. Over the last few years clubs have become more focused on driving revenue in addition to broadcasting rights. However with the amount of money that clubs receive centrally from the PL, that funds the vast majority of the costs of running a club in the PL which are mainly players' costs. Certainly for ourselves the PL income which includes not just broadcasting rights but also prize money, made up around 83% of our total turnover, on average in the eight seasons we were in the PL. As you can see it's a huge element of our income while we were in the PL.

2. **Are you concerned that the largest clubs in the EPL might seek to negotiate broadcasting contracts on an individual basis?**

3. **Commercial / sponsorship deals give some of the largest clubs a huge financial advantage over the rest of the EPL. Are you concerned by disparities in revenue and do you think this might impact upon the level of competition?**

   I think the PL will resist that because one of the things that drives the revenues for the PL when they are negotiated in broadcasting agreements with BSkyB, BT Sport, ESPN or whoever it is they are dealing with, one of the fundamental qualities of the PL is the fact that there is that broad equality of distribution of income. Unlike for example in Spain where the top two clubs can negotiate their own deals. The collective element of the PL ensures that there is less difference between the amount that the bottom clubs receive and the top clubs, compared to other European leagues.

   That ensures that there is more competitiveness and there is the possibility of clubs in the PL over-achieving as we saw yesterday with Leicester winning the PL. When you look at other European leagues that becomes something that would be very, very unlikely, and of course it was very unlikely in the PL but I think that the amount of money that all the clubs receive now in the PL has levelled the

playing field somewhat and that's what we've seen this season. Of course for the big clubs who've monopolised the top of the table for a number of years, that's probably not something that is very desirable for them. But for the league itself that is one of the qualities that ensures that the attractiveness and popularity of the PL continues and grows.

Overseas broadcasting revenue is split evenly between PL clubs, which for a club like ours is great. It meant that we shared the same as every other club and I think that's only right because some of the bigger clubs have a view that the international broadcasting rights bring in so much money because of the top clubs. But I also think there is the unpredictability of the PL where anybody can beat anybody generally. I think that adds to the popularity of the league. Certainly in my dealings with the PL that was one of the things they wanted to maintain. The fact that the league is stronger with 20 healthy, competitive clubs, rather than three or four top clubs.

When you look at those four or five top clubs they generate more revenue anyway off the field commercially and through sponsorship and in other ways. So I actually think it's a very, very good model the PL, and of course you only have to look at the increase in the broadcasting rights that it delivers to see how successful it's been.

4. **Are clubs finding it more difficult to obtain commercial / sponsorship revenue?**
   Having been in the PL and now having experienced the Championship and League 1, I can tell you it's an awful lot easier in the PL than it is outside the PL. Being a PL club attracts big name sponsors whoever the club is and it really does allow you to generate revenue that you certainly can't do in the Football League just because you get that exposure. The actual step from a commercial point of view, from a media exposure point of view when you get into the PL is absolutely enormous and that makes you a very marketable commodity as a football club. Although it's still dwarfed by the main income which is broadcasting rights.

5. **On average what is the duration of contracts with major sponsors?**

   A shirt deal, generally you are looking at probably two to three years. It's unusual to go any longer than that. You can do a one-year deal but generally… you want the flexibility to be able to change if it doesn't work, or the sponsor will want the flexibility because there's no way that you can guarantee PL survival as

a club like ours for longer than one-year. As long as you've got clauses in there where the income reduces if you do get relegated then the sponsors are quite happy to go for a two or three-year deal, which is generally the length of time that we did.

6. **Do contracts with major sponsors (eg: shirt sponsor, kit supplier) have bonus payments related to playing success?**

   Yes you can negotiate those and we did do that, but generally the amounts are fairly insignificant compared to other streams of income.

7. **Will stadium sponsorship become an increasingly important revenue stream?**

   We were in a fortunate position in that our owner was also the owner of a major XXXX. So when we reached the PL that was our major shirt sponsor and stadium sponsor. That ran out in 2009 when we changed shirt sponsor for the first time.

   It's a large amount of money but when you compare it to broadcasting rights it's not something that you can increase the percentage of your total income. You can drive it a little bit but ultimately it's fairly insignificant.

8. **Do clubs budget for or rely on funds from the sale of players?**

   You certainly can do and we've certainly benefited from that. In the PL it isn't a strategic plan. Once you reach the PL for a club of our size, our sole aim really was to improve every year. Our first aim was survival in the PL and to maintain our position there, and if you plan to sell your better players then that's a very difficult strategy to maintain because ultimately you're not necessarily successful every time you buy a player and sell him for a higher amount. What happens is you buy players at the right time in their career because they are then better value. And if you've got the right management team to be able to develop those players, and they gain experience in the PL then they become attractive to some of the bigger clubs, which is what happened.

   We reached the PL with a team of players who broadly hadn't played at the top level. In our first season in the PL we over-achieved by most peoples' expectations and finished in the top ten. We were then susceptible to other clubs coming in and buying our players because they could pay them higher

salaries. That certainly happened to us after the first season where we lost players like…… and then you have to replace those players with players who are equally as good if not better.

As the seasons progressed and we became a more established PL club, our recruitment of players became stronger and we were able to buy players from overseas, South America and Europe, and we were able to develop those players, give them experience. For lower fees than our competitors we were able to produce players that became top players such as….So we were able to capitalise on their development and sell them for quite significant sums. That helps you to invest in future players. It also helps to balance the books when you are at a PL club that is competing against clubs with much, much bigger budgets.

Certainly when you are trying to buy players as a PL club everyone knows the financial power that clubs have and all of a sudden players become more expensive. But that's one of the challenges in the PL, but at least you do have the money to be able to spend, whereas as a football league club it becomes very difficult to buy those players especially when you are competing with a PL club. It's virtually impossible to buy a player if there's a PL club in for that player as well.

Control of costs

9. What financial information does your club use on a regular basis?

The key figures are turnover and players' salaries and operating profits. It's not complicated to run a PL football club because the key numbers are so big and so significant that ultimately if you control your wage costs and drive your turnover then you're going to increase your profitability. Because they are the key numbers, they are the things we look at generally as key performance indicators, and the ratios around those numbers.

(Recruiting players) is always a risk. Recruiting players is not an exact science and what we've seen over the last few years is clubs investing a lot of money in software, in staff members in scouting networks, to reduce that risk. Because if you get player recruitment right, generally success will follow. There's a lot more focus on that side of the business.

Of course there's still the same pool of players that we're all trying to buy and the same amount of competitors all trying to buy those players. So the quality of player doesn't necessarily increase, but with the more financial power that clubs have in the PL, that's driving up not only transfer fees but wages as well. So I think if you can minimise the risk of the huge amounts of investment that clubs are now making in players.

It's all about getting a player who's going to have an impact for you. If you get that right then you'll generally finish in the top three; if you get that wrong the implications can be massive. It is very costly to recruit players so that's the biggest risk and the biggest impact of that is when you suffer relegation.

10. At the start of each accounting period does your club have a budget for transfer fees and wages? How is this arrived at and how strictly is it enforced?

11. Does your club budget to make an annual profit (or cumulative profit over for example three years)?

Generally we'll set budgets for the season. As a PL club we assume a finishing position of 17th and we'll budget accordingly. Our club always aimed to break-even over the season. Any profit that we would make would be re-invested in the club in buying new players or re-contracting existing players on increased salaries. Because of course that's always a pressure when you have good players that you don't want to sell, unfortunately what you sometimes have to do is re-negotiate their contract and pay them higher salaries. Which is good in one way because the players are improving and you're retaining them, which is good and what supporters want to see, but costs continue to increase. And the biggest cost in running a PL football club is players' wages. Generally we ran around 82% salary to turnover level, which is quite high. Ideally we'd look to try to get down to around 70% which we were heading to and we did manage in 2012.

It's so easy for clubs to over extend themselves and if you are in the bottom three at Christmas it's very easy for owners, encouraged by the managers to invest in players that will keep you in that division because the rewards now for maintaining your status are huge. So there is that temptation to improve your squad or think that you can improve your squad, but ultimately three clubs have to go down. Our view and our strategy was always to not over extend ourselves, to use the PL income to pay the going rate for players but not to over extend

ourselves to the situation where we were incurring significant losses. Although that is something that we did in years three, four and five after we almost got relegated in our second season. This is before my time (as CEO) but I think there was a targeted strategy to improve our playing squad to make sure that we didn't get relegated.

Increasing levels of soft debt

12. In your opinion are there valid reasons why clubs should be allowed to operate with negative equity over a number of accounting periods?

13. What problems are caused by wealthy owners providing unlimited financial support for their clubs (soft budget constraint)?

Even if it is soft debt to the owners, we've seen that there is no guarantee that if that continuous investment at a football club stops then the football club can be in trouble because it's still got costs and expenses being incurred. When a major source of cash flow into the club is restricted it becomes very difficult to continue in the short-term.

So as long as that investment from the owner continues then there's not a problem. But is that fair for the competition then that's where you are going to get differences of opinion?

UEFA Financial Fair Play Rules / Financial regulation

14. Why was it necessary for UEFA to introduce financial regulation? Shouldn't the day to day management of a football club / operations / objectives (profit or otherwise) be left to market forces?

Whether it was to try to maintain a level playing field or aspire to a more level playing field as some of the clubs in Europe became more and more wealthy. With rich owners such as PSG and Manchester City and Chelsea, and whether there was an element in UEFA that wanted to restrict the amount of money that owners could invest to improve football clubs, and I think that's the right thing to do.

From the PL's point of view, the PL was caught in a situation where above them UEFA had the FFP structure; the FL had financial fair play rules established, so the PL was sat in the middle without any financial fair play rules which didn't really make an awful lot of sense. It was the right thing to do to restrict losses. The PL

had the experience of Portsmouth in 2009-10, where a club got into financial difficulties while in the PL, which wasn't a great thing for the PL.

There was also a desire from club owners when the new broadcasting deal came in, in 2013 to try and retain some of that increased income to invest in facilities, to invest in the football club rather than to leave it to market forces. Because what happens if you leave it to market forces is that the salaries and transfer fees increase, which is what we've seen over the years. So that was the desire to bring FFP in.

Ultimately it seems the right thing to do, to restrict football clubs from making huge losses. Even now, outside the PL we're seeing with Bolton Wanderers just this year for example, that football clubs will get into financial difficulties if that money from the owner stops, and that's something that can never really be guaranteed. If the owner decides to stop putting money in, the football club is really in trouble and FFP rules are there to try to reduce the risk of that happening.

15. Although FFP allows clubs to invest in infrastructure it restricts the amounts wealthy owners / sugar daddies can invest in players and wages (investment in short-term costs). Some have argued this will maintain the status quo / freeze the current hierarchy of European football. Is this a valid criticism?

I think that criticism will come from owners who want to invest in their football clubs in an attempt to make them successful. And you're always going to get that difference of opinion between the people who are trying to run football clubs on a balanced financial structure where the club doesn't over-extend itself and maintains a healthy profitability or break-even position, against club owners who say well if I want to spend my money on investing in my football club and buying players and paying huge salaries, then why can I not do that because you can in any other business?

I do think there is an obligation to put in some form of protection for supporters, for the integrity of the competition, to protect clubs from perhaps owners who look too short-term, who may be thinking to invest in the short-term without really considering the consequences long-term.

16. Is there evidence to suggest that clubs are starting to invest more in youth development / academies?

They certainly are and that's from about 2011-12. There was a focus not only from clubs but also the PL, FL and FA to develop more of our own players. There was a concern, certainly in the FA that the financial power meant PL clubs were able to buy the best players in the world, and this was having an impact on the development of our younger players. The introduction of the Elite Player Performance Plan (EPPP) was intended to reverse that trend, to encourage clubs to develop more of their own players, to improve the standard of academies, improve the standard of staff training programmes and facilities in the clubs. So we have seen a greater focus on developing home grown players, though I think that will take a long time to bear fruit.

For our club, in the early years in the PL, in 2005, 6, 7, the focus of the club was on recruiting players from all over the world and not develop our own. There was a lack of investment in our academy and we didn't develop any players apart from X who was already a first team player when we got to the PL. We didn't develop any until around six years later when we had a couple come through who we were able to sell when they became established players.

For all clubs that type of policy of recruiting externally and not developing your own players has been reversed but there is still huge emphasis on buying the finished product rather than managers in the PL risking putting in younger players because there is always an element of risk in that strategy.

FFP and PL rules allow you to lose a fairly significant sum so the actual element of youth development is fairly small in comparison to the rest of the costs. But certainly by removing it from the FFP calculation encourages clubs, clubs don't have to worry about that element of the costs, that's extracted from the calculation.

17. It has been suggested that clubs might get around acceptable deviations through sponsorship / commercial transactions with related parties (eg: Man City and Etihad stadium naming rights). How can UEFA / EPL prevent this / decide the market value of a transaction?

There is (problems) but there are rules about those kinds of transactions and as long as those rules are robust and enforced properly then that shouldn't be a problem.

18. Some have suggested that FFP was an attempt by UEFA to prevent EPL clubs becoming too powerful in the Champions' League. Is this a valid criticism of FFP?

Yes, as we've seen over the last few years there's no guarantee of success even if you have the biggest budgets and biggest investment into football clubs, there's still no guarantee that you'll win the top prizes. We know there is a very strong correlation between the clubs with the biggest budget in terms of players' salaries and transfer fees and your final league position, but there's no guarantee that you will win things.

Whether that was a motive for bringing in FFP, I don't know but certainly there was an element when it was introduced, to try and maintain the competitiveness of the competition rather than allow clubs to dominate it with bigger budgets.

You want to maintain competition. One of the biggest qualities of football is the un-predictableness and you've got to maintain that so that one club doesn't have all the best players at the expense of other clubs, because you'll lose that unpredictability. And I think generally that has been maintained despite the huge amounts of investment made by owners into the PL.

19. In your opinion does financial regulation currently go far enough? How might this evolve over the next decade?

Personally I think the rules are adequate as they stand. I think it's still astonishing in any other business if you allowed businesses to make losses of €30 million; when there's a rule called FFP and you're still allowing clubs to make huge losses.

20. Do you think UEFA would prevent for example Barcelona, Manchester United or Real Madrid from playing in the Champions' League for breaching FFP?

That's a really difficult quandary for UEFA or whoever runs competitions. It's a very difficult dilemma because you need your star names in those competitions

so restricting them playing in those competitions is a really difficult decision for them to take and I'm not sure that is the right thing to do.

It's difficult because you want strong penalties for breaching the rules, but at the same time you also need those teams in the competition. So financial penalties, restricting their ability to field players in those competitions, as long as the punishment is there, they have got to be sufficient but once you start suspending clubs from competitions it becomes very difficult and the consequences could be significant.

21. During the last two years the EPL has reported an aggregate profit. Would this have happened without increased financial regulation by UEFA / EPL?

But what we've seen in the last couple of years is the sheer amount of increase in income from central funds from the PL, aligned with a higher emphasis on FFP and control of costs we've now seen football clubs in the PL are now making profits. Profitability is increasing and that can only be a good thing for the financial health of the football clubs as long as the owners are sensible with those profits.

Appendix 6: Sample of spreadsheets showing breakdown of revenue, key data from financial statements and summary of accounting ratios for the accounting year ended 2012

All clubs in the EPL

2012 Financial Statements (Annual reports)	Arsenal	Aston Villa	Blackburn Rovers	Bolton Wanderers	Chelsea	Everton	Fulham	Liverpool	Manchester City	Manchester United	Newcastle United	Norwich City	Queens Park Rangers	Stoke City	Sunderland
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Breakdown of revenue								10 months							
Revenue (Annual reports)	240,112	79,750	54,181	64,904	259,250	80,531	78,652	168,998	231,140	320,320	93,260	74,302	63,986	70,734	77,042
Gate receipts and match day revenues	95,212	12,204	5,419	5,724	77,742	16,779	11,354	42,327	21,871	98,718	23,942	11,338	8,439	7,979	14,071
Broadcasting / Media	84,701	44,159	41,141	42,562	111,019	52,790	55,408	62,774	88,153	103,991	55,565	48,930	46,732	50,135	47,040
Commercial, merchandising and sponsorship	52,515	23,387	7,621	10,164	70,489	10,962	11,890	63,897	121,116	117,611	13,753	14,034	8,815	12,620	15,931
Property development	7,684	0													
Hotel revenue				6,454											
Total	240,112	79,750	54,181	64,904	259,250	80,531	78,652	168,998	231,140	320,320	93,260	74,302	63,986	70,734	77,042
Gate receipts and match day revenues	40%	15%	10%	9%	30%	21%	14%	25%	9%	31%	26%	15%	13%	11%	18%
Broadcasting / Media	35%	55%	76%	66%	43%	66%	70%	37%	38%	32%	60%	66%	73%	71%	61%
Commercial, merchandising and sponsorship	22%	29%	14%	16%	27%	14%	15%	38%	52%	37%	15%	19%	14%	18%	21%
Property development	3%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Hotel	0%	0%	0%	10%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

2012 Financial Statements (Annual reports)	Swansea City	Tottenham Hotspur	West Bromwich Albion	Wigan Athletic	Wolverhampton Wanderers	Total	Average	Standard deviation	Maximum	Minimum	Revenue earned by 6 largest clubs	Revenue earned by other clubs	Total (check)	Co-efficient of skewness
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	
Breakdown of revenue											58%	42%		
Revenue (Annual reports)	65,166	144,156	66,660	52,597	60,646	2,346,387	117,319	79,223	320,320	52,597	1,363,976	982,411	2,346,387	1.42
Gate receipts and match day revenues	5,790	27,659	7,883	3,590	8,044	506,085	25,304	29,080	98,718	3,590	363,529	142,556	506,085	1.81
Broadcasting / Media	49,142	63,561	50,555	46,081	42,225	1,186,664	59,333	20,293	111,019	41,141	514,199	672,465	1,186,664	1.54
Commercial, merchandising and sponsorship	10,234	52,936	8,222	2,926	10,377	639,500	31,975	35,214	121,116	2,926	478,564	160,936	639,500	1.62
Property development						7,684	0	3,842	7,684	0	7,684	0	7,684	
Hotel revenue						6,454	0	0	6,454	6,454	0	6,454	6,454	
Total	65,166	144,156	66,660	52,597	60,646	2,346,387	117,319	79,223	320,320	52,597	1,363,976	982,411	2,346,387	
Gate receipts and match day revenues	9%	19%	12%	7%	13%	22%					27%	15%	22%	
Broadcasting / Media	75%	44%	76%	88%	70%	51%					38%	68%	51%	
Commercial, merchandising and sponsorship	16%	37%	12%	6%	17%	27%					35%	16%	27%	
Property development	0%	0%	0%	0%	0%	0%					1%	0%	0%	
Hotel	0%	0%	0%	0%	0%	0%					0%	1%	0%	
Total	100%	100%	100%	100%	100%	100%					100%	100%	100%	

2012 Financial Statements (Annual Reports)	Arsenal	Aston Villa	Blackburn Rovers	Bolton Wanderers	Chelsea	Everton	Fulham	Liverpool	Manchester City	Manchester United	Newcastle United	Norwich City	Queens Park Rangers
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Income statement	(exclu JV)				(exclu JV)			10 months					
Revenue (Annual Reports) (excludes player trading)	240,112	79,750	54,181	64,904	259,250	80,531	78,652	168,998	231,140	320,320	93,260	74,302	63,986
Operating profit / (loss) (before player trading but including exceptional items)	24,046	(32,958)	(9,633)	(12,471)	(195)	(6,402)	(1,530)	7,533	(21,060)	73,443	7,545	23,697	(14,956)
Profit / loss before interest and tax	50,084	(31,138)	4,463	(16,516)	(4,480)	(5,113)	(18,004)	(36,853)	(93,444)	44,872	1,425	18,045	(22,538)
Wages and salaries	(143,448)	(69,609)	(49,976)	(55,342)	(172,871)	(63,389)	(62,257)	(118,671)	(201,789)	(161,688)	(64,097)	(36,768)	(58,461)
Amortisation and impairment	(42,319)	(25,701)	(8,813)	(14,449)	(51,293)	(12,852)	(20,632)	(42,665)	(83,031)	(38,262)	(12,598)	(6,298)	(8,688)
Impairment (memo)	(5,517)	0	0	(1,649)	(1,787)	0	(2,942)	(8,906)	0	0	0	(1,169)	0
Amortisation (memo)	(36,802)	(25,701)	(8,813)	(12,800)	(49,506)	(12,852)	(17,690)	(33,759)	(83,031)	(38,262)	(12,598)	(5,129)	(8,688)
Termination payments included in wages and salaries (memo)	0	(5,930)	0	0	4,700	0	0	(9,579)	0	0	0	0	0
Profit / (Loss) on player trading (memo)	65,456	26,906	22,909	10,254	28,794	14,141	4,131	(1,721)	10,647	9,691	6,478	646	1,106
Interest (payable) / receivable (net)	(13,496)	13,588	(205)	(5,597)	156	(3,993)	(311)	(3,669)	(5,261)	(49,536)	(60)	(1,711)	(38)
Profit before tax	36,588	(17,550)	4,257	(22,113)	(4,324)	(9,106)	(18,315)	(40,522)	(98,705)	(4,664)	1,365	16,334	(22,577)
Check PBT figure	36,588	(17,550)	4,258	(22,113)	(4,324)	(9,106)	(18,315)	(40,522)	(98,705)	(4,664)	1,365	16,334	(22,576)
Statement of Financial Position													
Non current assets (excl players' registrations)	429,483	102,529	36,911	49,823	195,845	6,394	21,024	54,788	219,969	686,516	73,632	30,305	21,146
Intangible non current assets (Players' registrations)	85,708	46,589	16,506	19,038	200,454	23,927	16,681	110,520	226,244	112,399	37,034	11,339	23,433
Total non current assets	515,191	149,118	53,417	68,861	396,299	30,321	37,705	165,308	446,213	798,915	110,666	41,644	44,579
Total current assets	250,434	17,539	9,236	7,685	70,139	10,823	10,459	59,081	99,139	762,761	31,093	29,416	10,131
Cash and bank	153,625	703	401	503	16,987	0	4,317	4,923	12,600	70,603	0	16,553	1,625
Total assets	765,625	166,657	62,653	76,546	466,438	41,144	48,164	224,389	545,352	1,561,676	141,759	71,060	54,710
Current liabilities	(145,159)	(84,401)	(16,841)	(40,748)	(150,626)	(57,166)	(20,347)	(113,165)	(109,657)	(257,273)	(38,874)	(49,786)	(53,837)
Bank overdraft and ST loans	(5,937)	(44,449)	(3,785)	(9,213)	0	(25,952)	(15)	(22,200)	(5,962)	(15,628)	(18,343)	(15,391)	(29,734)
ST group loans (included above)	0	(30,190)	0	(8)	0	0	0	(22,200)	(3,733)	0	(18,000)	0	(29,734)
Working capital	105,275	(66,862)	(7,605)	(33,063)	(80,487)	(46,343)	(9,888)	(54,084)	(10,518)	505,488	(7,781)	(20,370)	(43,706)

2012 Financial Statements (Annual Reports)	Arsenal	Aston Villa	Blackburn Rovers	Bolton Wanderers	Chelsea	Everton	Fulham	Liverpool	Manchester City	Manchester United	Newcastle United	Norwich City	Queens Park Rangers
Total assets less current liabilities	620,466	82,256	45,812	35,798	315,812	(16,022)	27,817	111,224	435,695	1,304,403	102,885	21,274	873
Non current liabilities													
Long term debt (loans and HP and leases)	(246,606)	(107,972)	(21,097)	(127,790)	(894,592)	(22,799)	0	(89,894)	(68,834)	(421,247)	(111,000)	(210)	(63,300)
Intra group loans (included above)	0	(107,132)	(21,000)	(127,741)	(894,592)	0	0	(20,001)	0	0	(111,000)	0	(63,300)
Total non current liabilities	(322,918)	(114,645)	(24,428)	(140,236)	(938,215)	(28,271)	(12,050)	(105,966)	(109,337)	(482,668)	(137,442)	(6,838)	(63,300)
Total liabilities	(468,077)	(199,046)	(41,269)	(180,984)	(1,088,841)	(85,437)	(32,397)	(219,131)	(218,994)	(739,941)	(176,316)	(56,624)	(117,137)
Total debt (current and non current) (Memo)	(252,543)	(152,421)	(24,882)	(137,003)	(894,592)	(48,751)	(15)	(112,094)	(74,796)	(436,875)	(129,343)	(15,601)	(93,034)
Total hard debt (current and non current) (Memo)	(252,543)	(15,099)	(3,882)	(9,254)	0	(48,751)	(15)	(69,893)	(71,063)	(436,875)	(343)	(15,601)	0
Total assets less total liabilities	297,548	(32,389)	21,384	(104,438)	(622,403)	(44,293)	15,767	5,258	326,358	821,735	(34,557)	14,436	(62,427)
Shareholders' equity	297,548	(32,389)	21,384	(104,438)	(622,403)	(44,293)	15,767	5,258	326,358	821,735	(34,557)	14,436	(62,427)
Retained earnings	240,790	(165,507)	(123,900)	(127,063)	(683,173)	(72,345)	(202,292)	(128,882)	(611,011)	417,273	(110,987)	3,043	(109,025)
Capital employed (Overdraft, ST and LT loans and equity)	550,091	120,032	46,266	32,565	272,189	4,458	15,782	117,352	401,154	1,258,610	94,786	30,037	30,607
Ordinary share capital issued	62	133,118	143,988	18,702	1	35	218,059	174	44,640	na	6,655	616	31,000
Stadium Capacity	60,363	42,769	31,158	28,112	42,428	40,134	25,704	45,280	47,424	75,842	52,430	27,011	18,434
Ave league attendance	60,001	33,873	22,652	23,670	41,495	33,231	25,293	44,420	47,045	75,387	50,280	26,606	17,328
Cash from operations	27,694	(31,385)	(9,657)	(12,970)	(30,951)	(7,167)	888	(1,090)	(53,176)	80,303	11,910	30,493	(8,356)
Operating profit / (loss) (before player trading but including exceptional items)	24,046	(32,958)	(9,633)	(12,471)	(195)	(6,402)	(1,530)	7,533	(21,060)	73,443	7,545	23,697	(14,956)

2012 Financial Statements (Annual Reports)	Stoke City	Sunderland	Swansea City	Tottenham Hotspur	West Bromwich Albion	Wigan Athletic	Wolverhampton Wanderers	Total	Average	Standard deviation	Maximum	Minimum
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Income statement												
Revenue (Annual Reports) (excludes player trading)	70,734	77,042	65,166	144,156	66,660	52,597	60,646	2,346,387	117,319	79,223	320,320	52,597
Operating profit / (loss) (before player trading but including exceptional items)	5,760	(4,823)	22,724	14,195	5,419	8,834	9,441	98,609	4,930	21,421	73,443	(32,958)
Profit / loss before interest and tax	(9,656)	(30,751)	17,682	(1,605)	359	4,795	1,791	(126,582)	(6,329)	29,715	50,084	(93,444)
Wages and salaries	(53,223)	(63,784)	(34,567)	(90,206)	(50,493)	(37,679)	(38,339)	(1,626,657)	(81,333)	48,967	(34,567)	(201,789)
Amortisation and impairment	(17,387)	(22,788)	(5,165)	(29,330)	(11,073)	(11,940)	(9,726)	(475,010)	(23,751)	18,972	(5,165)	(83,031)
Impairment (memo)	0	0	(505)	0	0	0	(9,726)	(32,201)	(1,610)	2,904	0	(9,726)
Amortisation (memo)	(17,387)	(22,788)	(4,660)	(29,330)	(11,073)	(11,940)	0	(442,809)	(22,140)	18,853	0	(83,031)
Termination payments included in wages and salaries (memo)	0	0	0	0	0	0	0	(10,809)	(540)	2,676	4,700	(9,579)
Profit / (Loss) on player trading (memo)	1,971	(3,140)	123	9,200	6,013	7,902	2,076	223,583	11,179	15,232	65,456	(3,140)
Interest (payable) / receivable (net)	127	(262)	(245)	(5,699)	40	(541)	372	(76,341)	(3,817)	11,519	13,588	(49,536)
Profit before tax	(9,529)	(31,013)	17,437	(7,304)	399	4,254	2,163	(202,925)	(10,146)	26,599	36,588	(98,705)
Check PBT figure	(9,529)	(31,013)	17,437	(7,304)	399	4,254	2,163	(202,923)				
Statement of Financial Position												
Non current assets (excl players' registrations)	819	13,370	2,275	186,693	22,969	456	48,963	2,203,910	110,196	167,665	686,516	456
Intangible non current assets (Players' registrations)	32,974	27,455	10,148	57,955	5,472	16,837	22,998	1,103,711	55,186	61,034	226,244	5,472
Total non current assets	33,793	40,825	12,423	244,648	28,441	17,293	71,961	3,307,621	165,381	207,050	798,915	12,423
Total current assets	33,084	28,357	23,981	37,040	18,360	9,437	21,544	1,539,739	76,987	166,068	762,761	7,685
Cash and bank	9,992	443	10,792	15,702	672	797	12,869	334,107	16,705	34,930	153,625	0
Total assets	66,877	69,182	36,404	281,688	46,801	26,730	93,505	4,847,360	242,368	359,637	1,561,676	26,730
Current liabilities	(58,362)	(96,687)	(24,165)	(124,764)	(20,276)	(31,113)	(11,297)	(1,504,544)	(75,227)	59,852	(11,297)	(257,273)
Bank overdraft and ST loans	(24,407)	(52,018)	(5,550)	(25,574)	(3,271)	(17,750)	0	(325,179)	(16,259)	14,211	0	(52,018)
ST group loans (included above)	(24,376)	(40,580)	0	0	(2,132)	(5,000)	0	(175,953)	(8,798)	12,940	0	(40,580)
Working capital	(25,278)	(68,330)	(184)	(87,724)	(1,916)	(21,676)	10,247	35,195	1,760	122,452	505,488	(87,724)

2012 Financial Statements (Annual Reports)	Stoke City	Sunderland	Swansea City	Tottenham Hotspur	West Bromwich Albion	Wigan Athletic	Wolverhampton Wanderers	Total	Average	Standard deviation	Maximum	Minimum
Total assets less current liabilities	8,515	(27,505)	12,239	156,924	26,525	(4,383)	82,208	3,342,816	167,141	306,999	1,304,403	(27,505)
Non current liabilities												
Long term debt (loans and HP and leases)	(1)	(23,533)	(69)	(59,632)	0	(8,504)	0	(2,267,080)	(113,354)	205,409	0	(894,592)
Intra group loans (included above)	0	(23,533)	0	0	0	(6,717)	0	(1,375,016)	(68,751)	193,820	0	(894,592)
Total non current liabilities	(9,594)	(29,213)	(4,894)	(80,027)	(4,059)	(8,504)	(7,337)	(2,629,942)	(131,497)	219,050	(4,059)	(938,215)
Total liabilities	(67,956)	(125,900)	(29,059)	(204,791)	(24,335)	(39,617)	(18,634)	(4,134,486)	(206,724)	263,597	(18,634)	(1,088,841)
Total debt (current and non current) (Memo)	(24,408)	(75,551)	(5,619)	(85,206)	(3,271)	(26,254)	0	(2,592,259)	(129,613)	202,734	0	(894,592)
Total hard debt (current and non current) (Memo)	(32)	(11,438)	(5,619)	(85,206)	(1,139)	(14,537)	0	(1,041,290)	(52,065)	105,105	0	(436,875)
Total assets less total liabilities	(1,079)	(56,718)	7,345	76,897	22,466	(12,887)	74,871	712,874	35,644	251,762	821,735	(622,403)
Shareholders' equity	(1,079)	(56,718)	7,345	76,897	22,466	(12,887)	74,871	712,874	35,644	251,762	821,735	(622,403)
Retained earnings	(37,500)	(128,984)	6,290	30,821	18,317	(61,984)	(14,701)	(1,860,820)	(93,041)	231,119	417,273	(683,173)
Capital employed (Overdraft, ST and LT loans and equity)	23,329	18,833	12,964	162,103	25,737	13,367	74,871	3,305,133	165,257	287,383	1,258,610	4,458
Ordinary share capital issued	35,842	30	1,000	10,655	0	48,131	78,000					
Stadium Capacity	27,746	48,686	20,524	36,234	26,373	25,143	26,795	748,590	37,430	14,276	75,842	18,434
Ave league attendance	27,219	39,095	19,949	36,053	24,817	18,832	25,670	692,916	34,646	14,633	75,387	17,328
Cash from operations	8,939		21,019	26,617		6,486	10,706	70,303				
Operating profit / (loss) (before player trading but including exceptional items)	5,760		22,724	14,195		8,834	9,441	98,013				

2012	Wages as a % of revenue	Amortisation / Revenue (%)	Profit from operations %	PBIT %	Interest cover (PBIT / Net int)	ROCE % (before player transfers)	ROCE % (after player transfers)	Gearing (%)	Working capital / Total assets	Total assets / Total liabilities	Equity / Total assets	Hard debt / Equity	Debt / Equity	Hard debt gearing (%)
Arsenal	60%	18%	10%	20.9%	3.7	4%	9%	46%	14%	1.6	39%	85%	85%	46%
Aston Villa	87%	32%	-41%	-39.0%	2.3	-27%	-26%	127%	-40%	0.8	-19%	-47%	-471%	13%
Blackburn Rovers	92%	16%	-18%	8.2%	21.8	-21%	10%	54%	-12%	1.5	34%	18%	116%	8%
Bolton Wanderers	85%	22%	-19%	-25.4%	-3.0	-38%	-51%	421%	-43%	0.4	-136%	-9%	-131%	28%
Chelsea	67%	20%	0%	-1.7%	28.7	0%	-2%	329%	-17%	0.4	-133%	0%	-144%	0%
Everton	79%	16%	-8%	-6.3%	-1.3	-144%	-115%	1094%	-113%	0.5	-108%	-110%	-110%	1094%
Fulham	79%	26%	-2%	-22.9%	-57.9	-10%	-114%	0%	-21%	1.5	33%	0%	0%	0%
Liverpool	70%	25%	4%	-21.8%	-10.0	6%	-31%	96%	-24%	1.0	2%	1329%	2132%	60%
Manchester City	87%	36%	-9%	-40.4%	-17.8	-5%	-23%	19%	-2%	2.5	60%	22%	23%	18%
Manchester United	50%	12%	23%	14.0%	0.9	6%	4%	35%	32%	2.1	53%	53%	53%	35%
Newcastle United	69%	14%	8%	1.5%	23.8	8%	2%	136%	-5%	0.8	-24%	-1%	-374%	0%
Norwich City	49%	8%	32%	24.3%	10.5	79%	60%	52%	-29%	1.3	20%	108%	108%	52%
Queen's Park Rangers	91%	14%	-23%	-35.2%	-593.1	-49%	-74%	304%	-80%	0.5	-114%	0%	-149%	0%
Stoke City	75%	25%	8%	-13.7%	76.0	25%	-41%	105%	-38%	1.0	-2%	-3%	-2262%	0%
Sunderland	83%	30%	-6%	-39.9%	-117.4	-26%	-163%	401%	-99%	0.5	-82%	-20%	-133%	61%
Swansea City	53%	8%	35%	27.1%	72.2	175%	136%	43%	-1%	1.3	20%	77%	77%	43%
Tottenham Hotspur	63%	20%	10%	-1.1%	-0.3	9%	-1%	53%	-31%	- 6.3	27%	111%	111%	53%
West Bromwich Albion	76%	17%	8%	0.5%	-9.0	21%	1%	13%	-4%	1.9	48%	5%	15%	4%
Wigan Athletic	72%	23%	17%	9.1%	8.9	66%	36%	196%	-81%	0.7	-48%	-113%	-204%	109%
Wolverhampton Wanderers	63%	16%	16%	3.0%	-4.8	13%	2%	0%	11%	5.0	80%	0%	0%	0%
Aggregate	-69%	-20%	4%	-5%	-1.7	3%	-4%	78%	1%	1.2	15%	146%	364%	32%
Standard Deviation	13%	7%	18%	21%	135.4	59%	64%	247%	37%	2.0	66%	293%	712%	234%
Min	49%	8%	-41%	-40%	-593.1	-144%	-163%	0%	-113%	-6.3	-136%	-113%	-2262%	0%
Max	92%	36%	35%	27%	76.0	175%	136%	1094%	32%	5.02	80%	1329%	2132%	1094%

2012	Profit from operations / Total debt	Total Revenue / Total debt	Cash / Total assets	Wages / Non broadcasting revenue	Revenue / Total intangibles	Asset Turnover	Revenue / Working Capital	Current Ratio	Stadium utilisation (%)	Total Intangibles / Total Assets	Net Interest as a % of Revenue	Revenue / Hard debt	Profit before tax (%)	CFO / Profit from ops (%)	CFO / Revenue
Arsenal	0.10	0.95	20%	94%	2.8	0.4	2.3	1.7	99%	11%	5.6%	0.95	15.2%	115%	0.12
Aston Villa	-0.22	0.52	0%	185%	1.7	0.7	-1.2	0.2	79%	28%	-17.0%	5.28	-22.0%	95%	-0.39
Blackburn Rovers	-0.39	2.18	1%	360%	3.3	1.2	-7.1	0.5	73%	26%	0.4%	13.96	7.9%	100%	-0.18
Bolton Wanderers	-0.09	0.47	1%	228%	3.4	2.0	-2.0	0.2	84%	25%	8.6%	7.01	-34.1%	104%	-0.20
Chelsea	0.00	0.29	4%	111%	1.3	1.0	-3.2	0.5	98%	43%	-0.1%	n/a	-1.7%	15872%	-0.12
Everton	-0.13	1.65	0%	200%	3.4	18.1	-1.7	0.2	83%	58%	5.0%	1.65	-11.3%	112%	-0.09
Fulham	-102.00	5243.47	9%	212%	4.7	5.0	-8.0	0.5	98%	35%	0.4%	5,243.47	-23.3%	-58%	0.01
Liverpool	0.07	1.51	2%	88%	1.5	1.4	-3.1	0.5	98%	49%	2.2%	2.42	-24.0%	-14%	-0.01
Manchester City	-0.28	3.09	2%	137%	1.0	0.6	-22.0	0.9	99%	41%	2.3%	3.25	-42.7%	252%	-0.23
Manchester United	0.17	0.73	5%	71%	2.8	0.3	0.6	3.0	99%	7%	15.5%	0.73	-1.5%	109%	0.25
Newcastle United	0.06	0.72	0%	164%	2.5	1.0	-12.0	0.8	96%	26%	0.1%	271.90	1.5%	158%	0.13
Norwich City	1.52	4.76	23%	127%	6.6	2.5	-3.6	0.6	99%	16%	2.3%	4.76	22.0%	129%	0.41
Queen's Park Rangers	-0.16	0.69	3%	282%	2.7	2.1	-1.5	0.2	94%	43%	0.1%	n/a	-35.3%	56%	-0.13
Stoke City	0.24	2.90	15%	222%	2.1	3.0	-2.8	0.6	98%	49%	0.2%	2,210.44	-13.5%	155%	0.13
Sunderland	-0.06	1.02	1%	190%	2.8	4.1	-1.1	0.3	80%	40%	0.3%	6.74	-40.3%	0%	0.00
Swansea City	4.04	11.60	30%	241%	6.4	5.0	-354.2	1.0	97%	28%	0.4%	11.60	26.8%	92%	0.32
Tottenham Hotspur	0.17	1.69	6%	107%	2.5	0.9	-1.6	0.3	100%	21%	4.0%	1.69	-5.1%	188%	0.18
West Bromwich Albion	1.66	20.38	1%	252%	12.2	2.6	-34.8	0.9	94%	12%	-0.1%	58.53	0.6%	0%	0.00
Wigan Athletic	0.34	2.00	3%	387%	3.1	3.9	-2.4	0.3	75%	63%	1.0%	3.62	8.1%	73%	0.12
Wolverhampton Wanderers	n/a	n/a	14%	177%	2.6	0.8	5.9	1.9	96%	25%	0.6%	n/a	3.6%	113%	0.18
Aggregate	-0.04	0.91	7%	130%	2.1	0.7	66.7	1.0	93%	23%	3.3%	2.25	-8.6%	72%	0.03
Standard Deviation	22.89	1170.15	9%	84%	2.4	3.8	76.6	0.7	9%	15%	6%	1302.37	20%	3439.6%	0.20
Min	-102.00	0.29	0%	71%	1.0	0.3	-354.2	0.2	73%	7%	-17%	0.73	-43%	-58.0%	-0.39
Max	4.04	5243.47	30%	387%	12.2	18.1	5.9	3.0	100%	63%	15%	5243.47	27%	15872.3%	0.41

Clubs that reported a Profit before interest and tax

2012 Financial Statements (Annual Reports)	Arsenal	Blackburn Rovers	Manchester United	Newcastle United	Norwich City	Swansea City	West Bromwich Albion	Wigan Athletic	Wolverhampton Wanderers	Total	Average	Standard deviation	Maximum	Minimum
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Income statement	(exclu JV)													
Revenue (Annual Reports) (excludes player trading)	240,112	54,181	320,320	93,260	74,302	65,166	66,660	52,597	60,646	1,027,244	114,138	91,469	320,320	52,597
Operating profit / (loss) (before player trading but including exceptional items)	24,046	(9,633)	73,443	7,545	23,697	22,724	5,419	8,834	9,441	165,516	18,391	21,991	73,443	(9,633)
Profit / loss before interest and tax	50,084	4,463	44,872	1,425	18,045	17,682	359	4,795	1,791	143,516	15,946	18,012	50,084	359
Wages and salaries	(143,448)	(49,976)	(161,688)	(64,097)	(36,768)	(34,567)	(50,493)	(37,679)	(38,339)	(617,055)	(68,562)	45,954	(34,567)	(161,688)
Amortisation and impairment	(42,319)	(8,813)	(38,262)	(12,598)	(6,298)	(5,165)	(11,073)	(11,940)	(9,726)	(146,194)	(16,244)	13,092	(5,165)	(42,319)
Impairment (memo)	(5,517)	0	0	0	(1,169)	(505)	0	0	(9,726)	(16,917)	(1,880)	3,246	0	(9,726)
Amortisation (memo)	(36,802)	(8,813)	(38,262)	(12,598)	(5,129)	(4,660)	(11,073)	(11,940)	0	(129,277)	(14,364)	12,957	0	(38,262)
Termination payments included in wages and salaries (memo)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Profit / (Loss) on player trading (memo)	65,456	22,909	9,691	6,478	646	123	6,013	7,902	2,076	121,294	13,477	19,476	65,456	123
Interest (payable) / receivable (net)	(13,496)	(205)	(49,536)	(60)	(1,711)	(245)	40	(541)	372	(65,382)	(7,265)	15,508	372	(49,536)
Profit before tax	36,588	4,257	(4,664)	1,365	16,334	17,437	399	4,254	2,163	78,133	8,681	12,000	36,588	(4,664)
Check PBT figure	36,588	4,258	(4,664)	1,365	16,334	17,437	399	4,254	2,163	78,134				
Statement of Financial Position														
Non current assets (excl players' registrations)	429,483	36,911	686,516	73,632	30,305	2,275	22,969	456	48,963	1,331,510	147,946	228,376	686,516	456
Intangible non current assets (Players' registrations)	85,708	16,506	112,399	37,034	11,339	10,148	5,472	16,837	22,998	318,441	35,382	35,637	112,399	5,472
Total non current assets	515,191	53,417	798,915	110,666	41,644	12,423	28,441	17,293	71,961	1,649,951	183,328	263,414	798,915	12,423
Total current assets	250,434	9,236	762,761	31,093	29,416	23,981	18,360	9,437	21,544	1,156,262	128,474	235,550	762,761	9,236
Cash and bank	153,625	401	70,603	0	16,553	10,792	672	797	12,869	266,312	29,590	48,606	153,625	0
Total assets	765,625	62,653	1,561,676	141,759	71,060	36,404	46,801	26,730	93,505	2,806,213	311,801	493,522	1,561,676	26,730
Current liabilities	(145,159)	(16,841)	(257,273)	(38,874)	(49,786)	(24,165)	(20,276)	(31,113)	(11,297)	(594,784)	(66,087)	77,687	(11,297)	(257,273)
Bank overdraft and ST loans	(5,937)	(3,785)	(15,628)	(18,343)	(15,391)	(5,550)	(3,271)	(17,750)	0	(85,655)	(9,517)	6,737	0	(18,343)
ST group loans (included above)	0	0	0	(18,000)	0	0	(2,132)	(5,000)	0	(25,132)	(2,792)	5,611	0	(18,000)
Working capital	105,275	(7,605)	505,488	(7,781)	(20,370)	(184)	(1,916)	(21,676)	10,247	561,478	62,386	160,791	505,488	(21,676)

2012 Financial Statements (Annual Reports)	Arsenal	Blackburn Rovers	Manchester United	Newcastle United	Norwich City	Swansea City	West Bromwich Albion	Wigan Athletic	Wolverhampton Wanderers		Total	Average	Standard deviation	Maximum	Minimum
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's		£000's	£000's	£000's	£000's	£000's
Total assets less current liabilities	620,466	45,812	1,304,403	102,885	21,274	12,239	26,525	(4,383)	82,208		2,211,429	245,714	416,844	1,304,403	(4,383)
Non current liabilities															
Long term debt (loans and HP and leases)	(246,606)	(21,097)	(421,247)	(111,000)	(210)	(69)	0	(8,504)	0		(808,733)	(89,859)	140,803	0	(421,247)
Intra group loans (included above)	0	(21,000)	0	(111,000)	0	0	0	(6,717)	0		(138,717)	(15,413)	34,430	0	(111,000)
Total non current liabilities	(322,918)	(24,428)	(482,668)	(137,442)	(6,838)	(4,894)	(4,059)	(8,504)	(7,337)		(999,088)	(111,010)	165,340	(4,059)	(482,668)
Total liabilities	(468,077)	(41,269)	(739,941)	(176,316)	(56,624)	(29,059)	(24,335)	(39,617)	(18,634)		(1,593,872)	(177,097)	241,221	(18,634)	(739,941)
Total debt (current and non current) (Memo)	(252,543)	(24,882)	(436,875)	(129,343)	(15,601)	(5,619)	(3,271)	(26,254)	0		(894,388)	(99,376)	143,015	0	(436,875)
Total hard debt (current and non current) (Memo)	(252,543)	(3,882)	(436,875)	(343)	(15,601)	(5,619)	(1,139)	(14,537)	0		(730,539)	(81,171)	147,513	0	(436,875)
Total assets less total liabilities	297,548	21,384	821,735	(34,557)	14,436	7,345	22,466	(12,887)	74,871		1,212,341	134,705	260,057	821,735	(34,557)
Shareholders' equity	297,548	21,384	821,735	(34,557)	14,436	7,345	22,466	(12,887)	74,871		1,212,341	134,705	260,057	821,735	(34,557)
Retained earnings	240,790	(123,900)	417,273	(110,987)	3,043	6,290	18,317	(61,984)	(14,701)		374,141	41,571	166,218	417,273	(123,900)
Capital employed (Overdraft, ST and LT loans and equity)	550,091	46,266	1,258,610	94,786	30,037	12,964	25,737	13,367	74,871		2,106,729	234,081	396,120	1,258,610	12,964
Ordinary share capital issued	62	143,988	na	6,655	616	1,000	0	48,131	78,000						
Stadium Capacity	60,363	31,158	75,842	52,430	27,011	20,524	26,373	25,143	26,795		345,639	38,404	18,372	75,842	20,524
Ave league attendance	60,001	22,652	75,387	50,280	26,606	19,949	24,817	18,832	25,670		324,194	36,022	19,385	75,387	18,832

2012	Wages as a % of revenue	Amortisation / Revenue (%)	Profit from operations %	PBIT %	Interest cover (PBIT / Net int)	ROCE % (before player transfers)	ROCE % (after player transfers)	Gearing (%)	Working capital / Total assets	Total assets / Total liabilities	Equity / Total assets	Hard debt / Equity	Debt / Equity	Hard debt gearing (%)
Arsenal	60%	18%	10%	20.9%	3.7	4%	9%	46%	14%	1.6	39%	85%	85%	46%
Blackburn Rovers	92%	16%	-18%	8.2%	21.8	-21%	10%	54%	-12%	1.5	34%	18%	116%	8%
Manchester United	50%	12%	23%	14.0%	0.9	6%	4%	35%	32%	2.1	53%	53%	53%	35%
Newcastle United	69%	14%	8%	1.5%	23.8	8%	2%	136%	-5%	0.8	-24%	-1%	-374%	0%
Norwich City	49%	8%	32%	24.3%	10.5	79%	60%	52%	-29%	1.3	20%	108%	108%	52%
Swansea City	53%	8%	35%	27.1%	72.2	175%	136%	43%	-1%	1.3	20%	77%	77%	43%
West Bromwich Albion	76%	17%	8%	0.5%	-9.0	21%	1%	13%	-4%	1.9	48%	5%	15%	4%
Wigan Athletic	72%	23%	17%	9.1%	8.9	66%	36%	196%	-81%	0.7	-48%	-1.1	-2.0	109%
Wolverhampton Wanderers	63%	16%	16%	3.0%	-4.8	13%	2%	0%	11%	5.0	80%	0%	0%	0%
Aggregate	-60%	-14%	16%	14%	2.2	8%	7%	42%	20%	1.8	43%	60%	74%	35%
Standard Deviation	13%	4%	15%	9%	22.9	57%	42%	59%	30%	1.2	37%	62%	157%	33%
Min	49%	8%	-18%	1%	-9.0	-21%	1%	0%	-81%	0.7	-48%	-113%	-374%	0%
Max	92%	23%	35%	27%	72.17	175%	136%	196%	32%	5.02	80%	108%	116%	109%

2012	Profit from operations / Total debt	Total Revenue / Total debt	Cash / Total assets	Wages / Non broadcasting revenue	Revenue / Total intangibles	Asset Turnover	Revenue / Working Capital	Current Ratio	Stadium utilisation (%)	Total Intangibles / Total Assets	Net Interest as a % of Revenue	Revenue / Hard debt	Profit before tax (%)
Arsenal	0.10	0.95	20%	94%	2.8	0.4	2.3	1.7	99%	11%	5.6%	0.95	15.2%
Blackburn Rovers	-0.39	2.18	1%	360%	3.3	1.2	-7.1	0.5	73%	26%	0.4%	13.96	7.9%
Manchester United	0.17	0.73	5%	71%	2.8	0.3	0.6	3.0	99%	7%	15.5%	0.73	-1.5%
Newcastle United	0.06	0.72	0%	164%	2.5	1.0	-12.0	0.8	96%	26%	0.1%	271.90	1.5%
Norwich City	1.52	4.76	23%	127%	6.6	2.5	-3.6	0.6	99%	16%	2.3%	4.76	22.0%
Swansea City	4.04	11.60	30%	241%	6.4	5.0	-354.2	1.0	97%	28%	0.4%	11.60	26.8%
West Bromwich Albion	1.66	20.38	1%	252%	12.2	2.6	-34.8	0.9	94%	12%	-0.1%	58.53	0.6%
Wigan Athletic	0.34	2.00	3%	387%	3.1	3.9	-2.4	0.3	75%	63%	1.0%	3.62	8.1%
Wolverhampton Wanderers	n/a	n/a	14%	177%	2.6	0.8	5.9	1.9	96%	25%	0.6%	n/a	3.6%
Aggregate	-0.19	1.15	9%	116%	3.2	0.5	1.8	1.9	94%	11%	6.4%	1.41	7.6%
Standard Deviation	1.36	6.60	11%	105%	3.0	1.6	109.9	0.8	10%	16%	5%	87.30	9%
Min	-0.39	0.72	0%	71%	2.5	0.3	-354.2	0.3	73%	7%	0%	0.73	-1%

Clubs that reported a Loss before interest and tax

2012 Financial Statements (Annual Reports)	Aston Villa	Bolton Wanderers	Chelsea	Everton	Fulham	Liverpool	Manchester City	Queens Park Rangers	Stoke City	Sunderland	Tottenham Hotspur	Total	Average	Standard deviation	Maximum	Minimum
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Income statement			(exclu JV)			10 months										
Revenue (Annual Reports) (excludes player trading)	79,750	64,904	259,250	80,531	78,652	168,998	231,140	63,986	70,734	77,042	144,156	1,319,143	119,922	67,460	259,250	63,986
Operating profit / (loss) (before player trading but including exceptional items)	(32,958)	(12,471)	(195)	(6,402)	(1,530)	7,533	(21,060)	(14,956)	5,760	(4,823)	14,195	(66,907)	(6,082)	13,004	14,195	(32,958)
Profit / loss before interest and tax	(31,138)	(16,516)	(4,480)	(5,113)	(18,004)	(36,853)	(93,444)	(22,538)	(9,656)	(30,751)	(1,605)	(270,098)	(24,554)	24,532	(1,605)	(93,444)
Wages and salaries	(69,609)	(55,342)	(172,871)	(63,389)	(62,257)	(118,671)	(201,789)	(58,461)	(53,223)	(63,784)	(90,206)	(1,009,602)	(91,782)	48,879	(53,223)	(201,789)
Amortisation and impairment	(25,701)	(14,449)	(51,293)	(12,852)	(20,632)	(42,665)	(83,031)	(8,688)	(17,387)	(22,788)	(29,330)	(328,816)	(29,892)	20,745	(8,688)	(83,031)
Impairment (memo)	0	(1,649)	(1,787)	0	(2,942)	(8,906)	0	0	0	0	0	(15,284)	(1,389)	2,570	0	(8,906)
Amortisation (memo)	(25,701)	(12,800)	(49,506)	(12,852)	(17,690)	(33,759)	(83,031)	(8,688)	(17,387)	(22,788)	(29,330)	(313,532)	(28,503)	20,467	(8,688)	(83,031)
Termination payments included in wages and salaries (memo)	(5,930)	0	4,700	0	0	(9,579)	0	0	0	0	0	(10,809)	(983)	3,547	4,700	(9,579)
Profit / (Loss) on player trading (memo)	26,906	10,254	28,794	14,141	4,131	(1,721)	10,647	1,106	1,971	(3,140)	9,200	102,289	9,299	10,180	28,794	(3,140)
Interest (payable) / receivable (net)	13,588	(5,597)	156	(3,993)	(311)	(3,669)	(5,261)	(38)	127	(262)	(5,699)	(10,959)	(996)	5,177	13,588	(5,699)
Profit before tax	(17,550)	(22,113)	(4,324)	(9,106)	(18,315)	(40,522)	(98,705)	(22,577)	(9,529)	(31,013)	(7,304)	(281,058)	(25,551)	25,322	(4,324)	(98,705)
Check PBT figure	(17,550)	(22,113)	(4,324)	(9,106)	(18,315)	(40,522)	(98,705)	(22,576)	(9,529)	(31,013)	(7,304)	(281,057)				
Statement of Financial Position																
Non current assets (excl players' registrations)	102,529	49,823	195,845	6,394	21,024	54,788	219,969	21,146	819	13,370	186,693	872,400	79,309	79,494	219,969	819
Intangible non current assets (Players' registrations)	46,589	19,038	200,454	23,927	16,681	110,520	226,244	23,433	32,974	27,455	57,955	785,270	71,388	71,768	226,244	16,681
Total non current assets	149,118	68,861	396,299	30,321	37,705	165,308	446,213	44,579	33,793	40,825	244,648	1,657,670	150,697	143,858	446,213	30,321
Total current assets	17,539	7,685	70,139	10,823	10,459	59,081	99,139	10,131	33,084	28,357	37,040	383,477	34,862	28,343	99,139	7,685
Cash and bank	703	503	16,987	0	4,317	4,923	12,600	1,625	9,992	443	15,702	67,795	6,163	6,196	16,987	0
Total assets	166,657	76,546	466,438	41,144	48,164	224,389	545,352	54,710	66,877	69,182	281,688	2,041,147	185,559	169,442	545,352	41,144
Current liabilities	(84,401)	(40,748)	(150,626)	(57,166)	(20,347)	(113,165)	(109,657)	(53,837)	(58,362)	(96,687)	(124,764)	(909,760)	(82,705)	38,093	(20,347)	(150,626)
Bank overdraft and ST loans	(44,449)	(9,213)	0	(25,952)	(15)	(22,200)	(5,962)	(29,734)	(24,407)	(52,018)	(25,574)	(239,524)	(21,775)	16,199	0	(52,018)
ST group loans (included above)	(30,190)	(8)	0	0	0	(22,200)	(3,733)	(29,734)	(24,376)	(40,580)	0	(150,821)	(13,711)	15,001	0	(40,580)
Working capital	(66,862)	(33,063)	(80,487)	(46,343)	(9,888)	(54,084)	(10,518)	(43,706)	(25,278)	(68,330)	(87,724)	(526,283)	(47,844)	25,329	(9,888)	(87,724)

2012 Financial Statements (Annual Reports)	Aston Villa	Bolton Wanderers	Chelsea	Everton	Fulham	Liverpool	Manchester City	Queens Park Rangers	Stoke City	Sunderland	Tottenham Hotspur	Total	Average	Standard deviation	Maximum	Minimum
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Total assets less current liabilities	82,256	35,798	315,812	(16,022)	27,817	111,224	435,695	873	8,515	(27,505)	156,924	1,131,387	102,853	141,455	435,695	(27,505)
Non current liabilities																
Long term debt (loans and HP and leases)	(107,972)	(127,790)	(894,592)	(22,799)	0	(89,894)	(68,834)	(63,300)	(1)	(23,533)	(59,632)	(1,458,347)	(132,577)	244,279	0	(894,592)
Intra group loans (included above)	(107,132)	(127,741)	(894,592)	0	0	(20,001)	0	(63,300)	0	(23,533)	0	(1,236,299)	(112,391)	251,197	0	(894,592)
Total non current liabilities	(114,645)	(140,236)	(938,215)	(28,271)	(12,050)	(105,966)	(109,337)	(63,300)	(9,594)	(29,213)	(80,027)	(1,630,854)	(148,259)	253,476	(9,594)	(938,215)
Total liabilities	(199,046)	(180,984)	(1,088,841)	(85,437)	(32,397)	(219,131)	(218,994)	(117,137)	(67,956)	(125,900)	(204,791)	(2,540,614)	(230,965)	278,243	(32,397)	(1,088,841)
Total debt (current and non current) (Memo)	(152,421)	(137,003)	(894,592)	(48,751)	(15)	(112,094)	(74,796)	(93,034)	(24,408)	(75,551)	(85,206)	(1,697,871)	(154,352)	237,981	(15)	(894,592)
Total hard debt (current and non current) (Memo)	(15,099)	(9,254)	0	(48,751)	(15)	(69,893)	(71,063)	0	(32)	(11,438)	(85,206)	(310,751)	(28,250)	31,962	0	(85,206)
Total assets less total liabilities	(32,389)	(104,438)	(622,403)	(44,293)	15,767	5,258	326,358	(62,427)	(1,079)	(56,718)	76,897	(499,467)	(45,406)	212,868	326,358	(622,403)
Shareholders' equity	(32,389)	(104,438)	(622,403)	(44,293)	15,767	5,258	326,358	(62,427)	(1,079)	(56,718)	76,897	(499,467)	(45,406)	212,868	326,358	(622,403)
Retained earnings	(165,507)	(127,063)	(683,173)	(72,345)	(202,292)	(128,882)	(611,011)	(109,025)	(37,500)	(128,984)	30,821	(2,234,961)	(203,178)	218,080	30,821	(683,173)
Capital employed (Overdraft, ST and LT loans and equity)	120,032	32,565	272,189	4,458	15,782	117,352	401,154	30,607	23,329	18,833	162,103	1,198,404	108,946	121,383	401,154	4,458
Ordinary share capital issued	133,118	18,702	1	35	218,059	174	44,640	31,000	35,842	30	10,655					
Stadium Capacity	42,769	28,112	42,428	40,134	25,704	45,280	47,424	18,434	27,746	48,686	36,234	402,951	36,632	9,641	48,686	18,434
Ave league attendance	33,873	23,670	41,495	33,231	25,293	44,420	47,045	17,328	27,219	39,095	36,053	368,722	33,520	8,891	47,045	17,328

2012	Wages as a % of revenue	Amortisation / Revenue (%)	Profit from operations %	PBIT %	Interest cover (PBIT / Net int)	ROCE % (before player transfers)	ROCE % (after player transfers)	Gearing (%)	Working capital / Total assets	Total assets / Total liabilities	Equity / Total assets	Hard debt / Equity	Debt / Equity	Hard debt gearing (%)
Aston Villa	87%	32%	-41%	-39.0%	2.3	-27%	-26%	127%	-40%	0.8	-19%	-47%	-471%	13%
Bolton Wanderers	85%	22%	-19%	-25.4%	-3.0	-38%	-51%	421%	-43%	0.4	-136%	-9%	-131%	28%
Chelsea	67%	20%	0%	-1.7%	28.7	0%	-2%	329%	-17%	0.4	-133%	0%	-144%	0%
Everton	79%	16%	-8%	-6.3%	-1.3	-144%	-115%	1094%	-113%	0.5	-108%	-110%	-110%	1094%
Fulham	79%	26%	-2%	-22.9%	-57.9	-10%	-114%	0%	-21%	1.5	33%	0%	0%	0%
Liverpool	70%	25%	4%	-21.8%	-10.0	6%	-31%	96%	-24%	1.0	2%	1329%	2132%	60%
Manchester City	87%	36%	-9%	-40.4%	-17.8	-5%	-23%	19%	-2%	2.5	60%	22%	23%	18%
Queen's Park Rangers	91%	14%	-23%	-35.2%	-593.1	-49%	-74%	304%	-80%	0.5	-114%	0%	-149%	0%
Stoke City	75%	25%	8%	-13.7%	76.0	25%	-41%	105%	-38%	1.0	-2%	-3%	-2262%	0%
Sunderland	83%	30%	-6%	-39.9%	-117.4	-26%	-163%	401%	-99%	0.5	-82%	-20%	-133%	61%
Tottenham Hotspur	63%	20%	10%	-1.1%	-0.3	9%	-1%	53%	-31%	- 6.3	27%	111%	111%	53%
Aggregate	-77%	-25%	-5%	-20%	-24.6	-6%	-23%	142%	-26%	0.8	-24%	-62%	-340%	26%
Standard Deviation	9%	6%	14%	14%	173.8	43%	50%	299%	34%	2.2	70%	387%	947%	309%
Min	63%	14%	-41%	-40%	-593.1	-144%	-163%	0%	-113%	-6.3	-136%	-110%	-2262%	0%
Max	91%	36%	10%	-1%	76.0	25%	-1%	1094%	-2%	2.5	60%	1329%	2132%	1094%

2012	Profit from operations / Total debt	Total Revenue / Total debt	Cash / Total assets	Wages / Non broadcasting revenue	Revenue / Total intangibles	Asset Turnover	Revenue / Working Capital	Current Ratio	Stadium utilisation (%)	Total Intangibles / Total Assets	Net Interest as a % of Revenue	Revenue / Hard debt	Profit before tax (%)
Aston Villa	-0.22	0.52	0%	185%	1.7	0.7	-1.2	0.2	79%	28%	-17.0%	5.28	-22.0%
Bolton Wanderers	-0.09	0.47	1%	228%	3.4	2.0	-2.0	0.2	84%	25%	8.6%	7.01	-34.1%
Chelsea	0.00	0.29	4%	111%	1.3	1.0	-3.2	0.5	98%	43%	-0.1%	n/a	-1.7%
Everton	-0.13	1.65	0%	200%	3.4	18.1	-1.7	0.2	83%	58%	5.0%	1.65	-11.3%
Fulham	-102.00	5243.47	9%	212%	4.7	5.0	-8.0	0.5	98%	35%	0.4%	5,243.47	-23.3%
Liverpool	0.07	1.51	2%	88%	1.5	1.4	-3.1	0.5	98%	49%	2.2%	2.42	-24.0%
Manchester City	-0.28	3.09	2%	137%	1.0	0.6	-22.0	0.9	99%	41%	2.3%	3.25	-42.7%
Queen's Park Rangers	-0.16	0.69	3%	282%	2.7	2.1	-1.5	0.2	94%	43%	0.1%	n/a	-35.3%
Stoke City	0.24	2.90	15%	222%	2.1	3.0	-2.8	0.6	98%	49%	0.2%	2,210.44	-13.5%
Sunderland	-0.06	1.02	1%	190%	2.8	4.1	-1.1	0.3	80%	40%	0.3%	6.74	-40.3%
Tottenham Hotspur	0.17	1.69	6%	107%	2.5	0.9	-1.6	0.3	100%	21%	4.0%	1.69	-5.1%
Aggregate	0.04	0.78	3%	140%	1.7	1.1	-2.5	0.4	92%	38%	0.8%	4.25	-21.3%
Standard Deviation	29.31	1506.99	4%	57%	1.0	4.8	5.9	0.2	8%	11%	6%	1704.90	13%
Min	-102.00	0.29	0%	88%	1.0	0.6	-22.0	0.2	79%	21%	-17%	1.65	-43%
Max	0.24	5243.47	15%	282%	4.7	18.1	-1.1	0.9	100%	58%	9%	5243.47	-2%

2012 Financial Statements - Pearson's coefficient of correlation							
	Wages and salaries	**EPL Total Points**		**Matchday**	**Broadcasting**	**Commercial revenue**	**Total revenue**
	£'000			**£'000**	**£'000**	**£'000**	**£'000**
Arsenal	143,448	70		95,212	84,701	52,515	240,112
Aston Villa	69,609	38		12,204	44,159	23,387	79,750
Blackburn Rovers	49,976	31		5,419	41,141	7,621	54,181
Bolton Wanderers	55,342	36		5,724	42,562	10,164	64,904
Chelsea	172,871	64		77,742	111,019	70,489	259,250
Everton	63,389	56		16,779	52,790	10,962	80,531
Fulham	62,257	52		11,354	55,408	11,890	78,652
Liverpool	118,671	52		42,327	62,774	63,897	168,998
Manchester City	201,789	89		21,871	88,153	121,116	231,140
Manchester United	161,688	89		98,718	103,991	117,611	320,320
Newcastle United	64,097	65		23,942	55,565	13,753	93,260
Norwich City	36,768	47		11,338	48,930	14,034	74,302
Queens Park Rangers	58,461	37		8,439	46,732	8,815	63,986
Stoke City	53,223	45		7,979	50,135	12,620	70,734
Sunderland	63,784	45		14,071	47,040	15,931	77,042
Swansea City	34,567	47		5,790	49,142	10,234	65,166
Tottenham Hotspur	90,206	69		27,659	63,561	52,936	144,156
West Bromwich Albion	50,493	47		7,883	50,555	8,222	66,660
Wigan Athletic	37,679	43		3,590	46,081	2,926	52,597
Wolverhampton Wanderers	38,339	25		8,044	42,225	10,377	60,646
Total	1,626,657						
Correlation	0.82		r	0.68	0.83	0.84	0.84
r^2	0.664		r^2	0.47	0.69	0.71	0.70

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Aston Villa plc (2004-06)

Birmingham City Football Club plc (2004-06, 2008, 2010-11)

Blackburn Rovers Football and Athletic plc (The) (2004-12)

Sugesta Limited (2011) (Blackpool FC)

Burnden Leisure plc (2004-12) (Bolton Wanderers FC)

Burnley Football and Athletic Company Limited (The) (2010, 2015)

Cardiff City Football Club Limited (2014)

The Charlton Athletic Football Company Limited (2004-07)

Fordstam Limited (2009-16) (Chelsea)

Chelsea Limited (2004-08)

Celtic plc (2016)

Crystal Palace FC (2000) Limited (2005)

CPFC 2010 Limited (2014-15)

The Derby County Football Club Limited (2008)

The Everton Football Club Company Limited (2004-15)

Fulham Football Leisure Limited (2004-14)

The Hull City Association Football Club (Tigers) Limited (2009-10, 2014-15)

Leeds United Association Football Club Limited (2004)

Leicester City Football Club plc (2004, 2015)

The Liverpool Football Club and Athletic Grounds Limited (2004-15)

Manchester City Limited (2004-15)

Red Football Limited (2006-15) (Manchester United FC)

Manchester United plc (2002-05)

Middlesbrough Football and Athletic Company (1986) Limited (2004-09)

Newcastle United Limited (2004-09, 2011-15)

Norwich City Football Club plc (2005, 2013-14)

Portsmouth City Football Club Limited (2004-2008)

QPR Holdings Limited (2013, 2015)

The Reading Football Club Limited (2007-08)

Sheffield United Football Club Limited (The) (2007)

Southampton Football Club Limited (2004-05, 2013-15)

Stoke City Football Club Limited (2009-15)

Sunderland Association Football Club, Limited (The) (2006-15)

Swansea City Football 2002 Limited (2012-15)

Tottenham Hotspur Limited (2004-15)

Watford Association Football Club Limited (The) (2007)

West Ham United Football Club Limited (2006-11, 2013-15)

West Bromwich Albion Football Club Limited (2005-06, 2009, 2011-15)

Wigan Athletic AFC Limited (2006-13)

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